

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2021-324-WS - ORDER NO. 2022-376(A)

MAY 31, 2022

IN RE: Application of Kiawah Island Utility, Inc. for Adjustment of Rates and Charges (Increase) and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Service) AMENDED ORDER APPROVING) SETTLEMENT AGREEMENT,) ADJUSTMENT OF RATES AND) CHARGES, AND TERMS AND) CONDITIONS
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After the issuance of Order No. 2022-376, it was noticed that the correct order exhibits were not attached to the Order. Kiawah Island Utility, Inc. filed a letter noting that the Public Service Commission of South Carolina (the Commission) needed to substitute corrected Order Exhibits 2 and 3 to Order No. 2022-376. There is no other change to the Order. All exhibits to the Amended Order are adopted and incorporated as if originally attached to Order No. 2022-376.

I. INTRODUCTION

This matter comes before the Commission on the Application (Application) of Kiawah Island Utility, Inc. (KIU or the Company), pursuant to the requirements of S.C. Code Ann. §§ 58-5-10(4), 58-5-210, 58-5-240, and S.C. Code Ann. Regs. 103-512.4.A, 103-503, 103-712.4.A, and 103-703. The Company seeks approval of an increase in the monthly water and sewer service charges as well as its rate schedules as set forth in the Application.

II. PROCEDURAL HISTORY

Consistent with S.C. Code Ann. § 58-5-240(A), KIU filed a letter with the Commission on October 11, 2021, regarding its intent to file the Application and proposed rate schedule seeking an adjustment in the Company's rates, charges, classifications, and/or regulations for water and sewer services provided to its service area in South Carolina. On November 30, 2021, KIU filed its Application for an adjustment of its rates and charges. Specifically, KIU seeks approval of an increase in the monthly water and sewer service charges as described in the rate schedules included in Exhibit "A" to the Application and recommended a test year of January 1, 2020, to December 31, 2020 (Test Year).

The procedural schedule in this docket was initially proposed by the Commission's Clerk's Office on October 13, 2021. On December 8, 2021, the Commission entered Order No. 2021-805, establishing the procedural schedule in the docket, while also authorizing the Commission Staff to make changes to the deadlines for prefiled testimony. On December 14, 2021, the Clerk's Office issued the Transmittal Letter, Prefile Testimony Letter, and Notice of Filing and Public Hearings. The Prefile Testimony Letter modified the prefile dates established in Order No. 2021-805 based on an agreement of the parties to the docket.

On December 16, 2021, the Clerk's Office issued a Revised Notice of Filing and Public Hearings with certain administrative corrections. On December 21, 2021, the Clerk's Office issued the Revised Transmittal Letter and the Second Revised Notice of Filing and Public Hearings (Notice), making additional ministerial corrections to the

Notice and extending KIU's time to publish the Notice until December 29, 2021. The Revised Transmittal Letter also established the bill insert timeline.

The Notice outlined the proposed changes in rates and charges for each customer class, gave notice of public hearings for customers to provide testimony on the Company's Application, and informed the public as to the date for the merits hearing in this docket. By the Revised Transmittal Letter, the Clerk's Office instructed the Company to (i) publish the Notice in newspapers of general circulation by December 29, 2021, and (ii) provide Proof of Publication by February 14, 2022. The Clerk's Office further instructed KIU to provide the Notice to each affected customer via bill inserts or by electronic mail to those customers who have agreed to receive notices by electronic mail on or before January 25, 2022, and to provide certification of such on or before February 14, 2022. Finally, the Clerk's Office instructed the Company to provide the Notice to the County Administrator in any county where KIU provides services as well as the City Administrator in any city where the Company provides services on or before January 24, 2022, and to provide certification of such on or before February 14, 2022. The Clerk's Office issued a letter with deadlines for prefiled testimony dated December 14, 2021.

On December 31, 2021, the Company filed with the Clerk's Office the letters containing the Notice sent to the Town of Kiawah Island and Charleston County. On January 6, 2022, the Company filed with the Clerk's Office an Affidavit of Publication of the Notice in *The Post and Courier*, a newspaper of general circulation. By letter dated February 9, 2022, the Company filed the affidavit of Becky Dennis, Director of Operations

of KIU, who attested that each affected customer was sent the Notice on January 20, 2022, via U.S. Postal Service First Class Mail.

The South Carolina Office of Regulatory Staff (ORS) is a party of record pursuant to S.C. Code Ann. § 58-4-10(B).

The South Carolina Department of Consumer Affairs (DCA) filed a Petition to Intervene on December 7, 2021, pursuant to S.C. Code Ann. Regs. 103-825. According to S.C. Code Ann. § 37-6-604 (2018), DCA may provide representation of the consumer interest before state and federal regulatory agencies when such agencies undertake to fix rates or prices for consumer products or service and may intervene as a party to advocate for the interests of consumers before the Commission. DCA's Petition to Intervene was granted on December 20, 2021. Order No. 2021-156-H.

The Town of Kiawah Island (Town) filed a Petition to Intervene on January 7, 2022. The Town, its residents, and businesses have an interest in this proceeding. The Town's residents and businesses who are residential and commercial water and sewer customers would be affected by the proposed cost increase to their water and sewer services. The Commission granted the Town's Petition to Intervene on January 28, 2022. Order No. 2022-8- H.

On January 27, 2022, KIU filed the prefiled direct testimony of Witnesses Craig Sorensen, Donald H. Burkett, and Becky Dennis, and the prefiled direct testimony and exhibits of Witnesses Charles Loy and Mujeeb Hafeez. The Company moved for protective treatment regarding certain information contained within Witness Dennis's and Witness Hafeez's testimonies and filed a redacted version of their testimonies with the Commission.

On February 24, 2022, the Commission denied KIU's motion for protective order with respect to Witness Hafeez's testimony on the grounds that no basis under FOIA protected the salary information KIU sought to protect.¹ However, the Commission subsequently allowed KIU to file revised testimony omitting compensation details for two employees. Order No. 2022-243. The Company filed the Revised Direct Testimony of Mujeeb Hafeez on March 28, 2022.

DCA filed the prefiled direct testimony and exhibits of Witness Aaron Rothschild on February 24, 2022. The same day, ORS filed the prefiled direct testimony and exhibits of Witnesses David J. Garrett, Glenn A. Watkins, David M. Herpel, Daniel P. Hunnell, II, and Dawn M. Hipp, and the direct testimony of Aaron K. Rabon². The Town also filed the prefiled direct testimony and exhibit of Witness John D. Labriola on February 24, 2022.

On March 10, 2022, the Company filed the prefiled rebuttal testimony and exhibits of Witnesses Douglas Carlisle, Craig Sorensen, Becky Dennis, and Benjamin E. Nicholson, V, and the prefiled rebuttal testimony of Donald H. Burkett and Mujeeb Hafeez.

On March 28, 2022, ORS filed the prefiled surrebuttal testimony and exhibits of Witnesses Dawn M. Hipp and Glenn A. Watkins and the prefiled surrebuttal testimony of David M. Herpel, Aaron K. Rabon, Daniel P. Hunnell, II, and David J Garrett. DCA filed the prefiled surrebuttal testimony of Witness Aaron Rothschild.

¹ See Order No. 2022-145 and Order No. 2022-161.

² ORS subsequently filed the Revised Direct Testimony and Exhibits of Dawn M. Hipp on March 30, 2022, and the Second Revised Direct Testimony and Exhibits of Dawn M. Hipp on April 1, 2022. The only changes were with respect to redactions. The Second Revised Direct Testimony and Exhibits of Dawn M. Hipp were moved into the record by ORS at the hearing on April 4, 2022.

The Commission held a public hearing for customer testimony on Monday, March 21, 2022, beginning at 9:00 a.m., with the Honorable Justin T. Williams presiding.³ One public witness provided comments on the Application. As no additional witnesses registered to testify, the Commission concluded the public hearing after the conclusion of the testimony. The Commission then cancelled the remaining public hearings originally scheduled in this docket.

On March 28, 2022, ORS filed a Settlement Agreement (Settlement Agreement) signed by the Town, KIU, and ORS (Settling Parties), pursuant to S.C. Code Ann. § 1-23-320(F) (Supp. 2021), and all other applicable statutes and regulations. DCA, while not a signatory to the Settlement Agreement, advised the Commission that it did not oppose approval of the Settlement Agreement by letter the same day. The Settlement Agreement constituted an agreed compromise of *all* positions advanced by the Settling Parties. Further, the Settlement Agreement provided that the Parties agreed to stipulate into the record the prefiled testimony and exhibits of all witnesses without objection, change, amendment, or cross-examination. The Settlement Agreement is attached hereto as Order Exhibit 1. (Hearing Exhibit 16.)

The Settling Parties stipulated into the record the direct, rebuttal, and surrebuttal testimony and exhibits of KIU Witnesses Donald H. Burkett, Charles Loy, Douglas H. Carlisle, Benjamin E. Nicholson, and Mujeeb Hafeez; ORS Witnesses Dawn M. Hipp, Daniel P. Hunnell, David M. Herpel, Aaron K. Rabon, Glenn A. Watkins, and David J.

³ The pre-registration sheet for the public hearing was accepted into the record and marked as Hearing Exhibit 1.

Garrett; and the Town Witness John D. Labriola. DCA stipulated into the record the testimony of its witness, Aaron Rothschild. Verifications were provided by the respective Parties for the above witnesses, and they were excused from the hearing.⁴ The Commission accepted the prefiled testimonies into the record, including any corrections, as if given orally from the stand, and any prefiled exhibits and appendices were entered into the record as hearing exhibits. The Settlement Agreement resolved all issues in dispute between the Parties.

On March 29, 2022, following a status conference with the Parties, the Chief Hearing Officer entered Chief Hearing Officer Directive Order No. 2022-23-H, which provided among other things, that the settlement hearing in this case would be held on Monday, April 4, 2022, at 10:00 a.m. Consistent with the Settlement Agreement, on March 31, 2022, ORS filed the prefiled Settlement Testimony of Witness Dawn M. Hipp, and KIU filed the prefiled Settlement Testimony of Witnesses Craig Sorensen and Becky Dennis. Witness Sorensen also prefiled Settlement Testimony Exhibit 1, the Settlement Agreement, which is described in further detail below.

The settlement hearing began on Monday, April 4, 2022, at 10:00 a.m., with the Honorable Justin T. Williams presiding. Charles L.A. Terreni, Esquire, Scott Elliott, Esquire, and Vincent Sheheen, Esquire, represented the Company. Alexander W. Knowles, Esquire, and Donna L. Rhaney, Esquire, represented ORS. Roger P. Hall, Esquire, and Connor J. Parker, Esquire, represented DCA. John J. Pringle, Jr., Esquire, represented the

⁴ Order No. 2022-23-H.

Town. Settlement Witnesses Dawn M. Hipp, Craig Sorensen, and Becky Dennis appeared in person to testify regarding the Settlement Agreement.

At the start of the hearing, the Commission accepted the Settlement Agreement into the record as an exhibit to KIU Witness Sorensen's Settlement Testimony. Settlement Witnesses Hipp, Dennis, and Sorensen each appeared before the Commission and answered questions from the Commission. The Settlement Agreement was entered as Hearing Exhibit 16.

III. STATUTORY STANDARDS AND APPLICABLE LAWS

KIU is a public utility, as defined by S.C. Code Ann. § 58-5-10(4) (2015), providing water and sewer service to customers on Kiawah Island in Charleston County, South Carolina. Application ¶ 2. The Company is a subsidiary of SouthWest Water Company (SWWC). KIU's last general rate case was Docket No. 2018-257-WS. The Company's current rates were approved in Commission Order No. 2019-288 issued on April 25, 2019, in Docket No. 2018-257-WS. In the Application, the Company proposed a test year of January 1, 2020, to December 31, 2020. Application ¶ 6. None of these items were contested by any party to this proceeding.

The Commission is vested with the power and jurisdiction to supervise and regulate the rates and service of every public utility in this state, and to ascertain and fix such just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed, observed, and followed by every public utility in this state. S.C. Code Ann. § 58-5-210 (2015). "[R]ate-making is not an exact science, but a

legislative function involving many questions of judgment and discretion.” *Parker v. S.C. Pub. Serv. Comm’n*, 280 S.C. 310, 312, 313 S.E.2d 290, 291 (1984).

Rates are established based on test year figures intended to reflect typical conditions. Where an unusual situation indicates that the test year figures are atypical, the Commission should adjust the test year data. *Parker v. S.C. Pub. Serv. Comm’n*, 280 S.C. 310, 312, 313 S.E.2d 290, 292 (1984). “[A]djustments for known and measurable changes in expenses may be necessary in order that the resulting rates reflect the actual rate base, net operating income, and cost of capital. The adjustments are within the discretion of the Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.” *Hamm v. S.C. Pub. Serv. Comm’n*, 309 S.C. 282, 291, 422 S.E.2d 110, 115 (1992) (citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 404 A.2d 799 (1979)).

Although the burden of proof of the reasonableness of all costs incurred which enter into a rate increase request rests with the utility, the utility's expenses are presumed to be reasonable and incurred in good faith. *Missouri ex rel. Southwestern Bell Co. v. Public Service Comm’n of Missouri*, 262 U.S. 276, 43 S.Ct. 544, 67 L.Ed. 981 (1923) (Brandis, Jr., J., concurring); *West Ohio Co. v. Pub. Util. Comm’n*, 294 U.S. 63, 55 S.Ct. 316, 79 L.Ed. 761 (1935); *Boise Water Corp. v. Idaho Pub. Util. Comm’n*, 97 Idaho 832, 555 P.2d 163 (1976); *City of Chicago v. Illinois Commerce Comm’n*, 133 Ill.App.3d 435, 88 Ill.Dec. 643, 478 N.E.2d 1369 (1985) (modified by statute as noted in *People ex rel. Hartigan v. Illinois*, 117 Ill.2d 120, 109 Ill.Dec. 797, 510 N.E.2d 865 (1987); *Long Island Lighting Co. v. Pub. Serv. Comm’n*, 134 A.D.2d 135, 523 N.Y.S.2d 615 (1987); *City of Norfolk v. Chesapeake & Potomac Tel. Co.*, 192 Va. 292, 64 S.E.2d 772 (1951). This presumption does not shift the burden of persuasion but shifts the burden of production on to the . . . other contesting party to demonstrate a tenable basis for raising the specter of

imprudence. *Long Island, supra.* The ultimate burden of showing every reasonable effort to minimize . . . costs remains on the utility. *Hamm v. South Carolina Pub. Serv. Comm'n and Carolina Power and Light Co.*, 291 S.C. 119, 352 S.E.2d 476 (1987).

Hamm v. S.C. Pub. Serv. Comm'n, 309 S.C. 282, 286–87, 422 S.E.2d 110, 112–13 (1992).

The Commission’s ratemaking authority “to supervise and regulate” rates and service and “to fix just and reasonable standards, classifications, regulations, practices, and measurements of service,” S.C. Code Ann. § 58–3–140(A) (1976 & Supp. 2021), entitles the Commission

to create incentives for utilities to improve their business practices. Accordingly, the PSC may determine that some portion of an expense actually incurred by a utility should not be passed on to consumers. *Patton v. S.C. Public Service Comm'n*, 280 S.C. 288, 292, 312 S.E.2d 257, 259–60 (1984); see *Southern Bell Telephone*, 270 S.C. at 599, 244 S.E.2d at 283 (finding it was not improper for the PSC to consider whether a utility could undertake measures to cut costs and improve efficiency).

Utilities Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff, 392 S.C. 96, 105, 708 S.E.2d 755, 760 (2011).

The Commission must determine a fair rate of return that the utility should be allowed the opportunity to earn after recovery of the expenses of utility operations. The legal standards for this determination are set forth in *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 602-03(1944) (“*Hope*”) and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923) (“*Bluefield*”).

In *Bluefield*, the United States Supreme Court held that:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. at 692-93.

The Commission and South Carolina appellate courts have consistently applied the principles set forth in *Bluefield* and *Hope*. See *Southern Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n of S.C.*, 270 S.C. 590, 244 S.E. 2d 278 (1978). “[U]nder the statutory standard of ‘just and reasonable’ it is the result reached not the method employed which is controlling [T]he fixing of ‘just and reasonable’ rates, involves the balancing of investor and the consumer interests.” *So. Bell*, 270 S.C. at 596, 244 S.E.2d at 281 (quoting *Hope*, 320 U.S. at 602-03). “South Carolina law does not require the Commission to use any particular price-setting methodology.” *Heater of Seabrook v. Pub. Serv. Comm’n*, 324 S.C. 56, 64 (1996) (citing *Nucor Steel v. Pub. Serv. Comm’n*, 312 S.C 79 (1994)). Thus, “the Public Service Commission has wide latitude to determine an appropriate rate-setting

methodology” and must “employ a methodology tailored to the facts and circumstances before it.” *Id.* at 64.

The Commission’s determination of a fair rate of return must be documented fully in its findings of fact and based exclusively on reliable, probative, and evidence on the whole record. *Porter v. S.C. Pub. Serv. Comm’n*, 332 S.C. 93, 98, 504 S.E.2d 320, 323 (1998). However, the Commission does not inspect, audit, or examine public utilities. S.C. Code Ann. § 58-3-60. Therefore, “the PSC is both entitled and required to consider the evidence presented to it on the formal record[.]” *Utils. Servs.*, 392 S.C. at 111, 708 S.E.2d at 763.

In establishing rates, it is incumbent upon the Commission to fix rates which "distribute fairly the revenue requirements [of the utility.]" *See Seabrook Island Property Owners Association v. S. C. Public Service Comm'n*, 303 S.C. 493, 499, 401 S.E.2d 672, 675 (1991). Our determination of "fairness" with respect to the distribution of the Company's revenue requirement is subject to the requirement that it be based upon some objective and measurable framework.

See Utilities Services of South Carolina, Inc. v. South Carolina Office of Regulatory Staff, 392 S.C. 96, 113-114, 708 S.E.2d 755, 764-765 (2011).

Finally, according to Commission Regulation § 103-503(B), governing sewerage utilities:

All rates, contract forms, and rules and regulations, proposed to be put into effect by any utility as defined in 103-502(11) shall be first approved by this commission before they shall become effective, unless they are exempt from such approval by statute or other provision of law.

S.C. Code Ann. Regs. § 103-503(B) (2012). Likewise, with water utilities, Commission regulations state:

All rates, contract forms, or rules and regulations, proposed to be put into effect by any utility as defined in 103-702(14), shall be first approved by this commission before they shall become effective, unless they are exempt from such approval by statute or other provision of law.

S.C. Code Ann. Regs. § 103-503(B) (2012).

IV. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

A. Issues Addressed Under Settlement Agreement

The Settlement Agreement executed by ORS, the Company, and the Town addresses all issues in this proceeding and constitutes a complete resolution of *all* issues in this proceeding. Hearing Exhibit 16 ¶ 3. DCA, while not a signatory to the Settlement Agreement, does not object to the Settlement Agreement. Hearing Exhibit 16, p. 1; Transcript, p. 38, lines 9-14. Pursuant to the Settlement Agreement, the Settling Parties agree to accept and adopt all recommendations, adjustments, and customer protections in the testimony and exhibits of ORS witnesses unless specifically modified by the Settlement Agreement without prejudice to the position of any party in future proceedings. Hearing Exhibit 16 ¶ 4. The Settling Parties agree that this Settlement Agreement is reasonable, is in the public interest, and is in accordance with law and regulatory policy. Hearing Exhibit 16 ¶ 24.

1. Return on Common Equity, Revenue, and Capital Structure

The Settlement Agreement addresses three components of KIU's cost of capital: return on equity (ROE), capital structure, and cost of debt. Additionally, the Settlement Agreement adopts the return on rate base method for setting rates and ORS's recommendations regarding rate design.

a. Return on Equity (ROE)

DCA Witness Rothschild asserted the ROE for KIU “should be between 6.78% and 8.16%,” and he recommended a “midpoint of 7.47%.” (Rothschild Direct p. 4, lines 19–21). ORS Witness Garrett proposed an “ROE of 8.44%” based on his “range of 6.43%–8.44%.” (Transcript, p. 87.30, lines 1–3). Company Witness Carlisle endorsed a return on equity of 9.35%. (Carlisle Rebuttal p. 5, lines 9–11). Witness Carlisle found an overall ROE range “between 7.74% and 9.60%” applying standard methods; however, due to his expectations for the economy over the next 2 years, he recommended an “inner range between 8.43% to 9.35%.” (Carlisle Rebuttal p. 5, lines 11–16).

Ultimately, the Settlement Agreement included an authorized ROE of 8.69%⁵, which is within the recommended range of Witness Carlisle. We conclude this is a reasonable compromise of the positions of the Parties. Moreover, it is reasonable under the Settlement Agreement taken and viewed as a whole and is supported by evidence of record.

b. Capital Structure

The Settlement Agreement includes a capital structure for KIU of 46.81% debt and 53.19% equity. Hearing Exhibit 16 ¶ 5. The capital structure in the Settlement Agreement is consistent with the testimony of Witnesses Carlisle and Garrett. (Carlisle Rebuttal p. 4, lines 20–22; Transcript, p. 87.62, lines 20–22; p. 87.63, lines 1–8). DCA Witness Rothschild recommended a capital structure of 49.86% equity and 50.14% debt based on

⁵ With this Settlement Agreement, a residential water customer using 11,000 gallons per month would have a monthly increase of approximately \$5.83, while sewer customers would not have any change to their rates. In comparison, based on the Company's Application, a residential water customer using 11,000 gallons per month would have experienced a monthly increase of approximately \$8.31, and a residential sewer customer using 11,000 gallons of water would have had an increase of approximately \$3.49. Hearing Exhibit 16, ¶ 9.

the average common equity ratios of the companies in his proxy group. (Transcript, p. 54.17, lines 18–19). We conclude the agreed upon capital structure for KIU reflects a reasonable compromise of the positions of the Parties. Furthermore, it is reasonable under the Settlement Agreement taken and viewed as a whole and supported by evidence of record.

c. Cost of Debt

The Settling Parties agreed to a 4.57% cost of debt. Hearing Exhibit 16 ¶ 5. This corresponds to the interest rate in KIU’s intercompany loan agreement with its parent company, and it is consistent with the recommendations in testimony of Witnesses Carlisle and Garrett. (Transcript p. 87.6, lines 21–22; Carlisle Rebuttal p. 4, lines 3–11). DCA Witness Rothschild recommended “long-term debt of 3.39% based on the interest rate of unsecured notes issued by Southwest Water Company in October 2020.” (Transcript, p. 52.23, lines 5–7). We conclude the agreed upon cost of debt for KIU reflects a reasonable compromise of the positions of the Parties, is reasonable under the Settlement Agreement taken and viewed as a whole and is supported by evidence of record.

d. Rate-Setting Method

The Company’s Application requested that the Commission set rates for the Company according to the operating margin method. (Application ¶ 15). However, the Parties agree that for this proceeding, KIU’s rates shall be set according to the return on rate base method. Hearing Exhibit 16 ¶ 6. This methodology is consistent with the testimony of Witnesses Garrett and Rothschild that “the rate of return method is appropriate because of KIU’s substantial rate base,” and it provides “an objective and measurable

framework” to determine the return. (Transcript, p. 87.6, lines 6–12; Transcript, p. 87.13, lines 6–7; Transcript, p. 52.6, lines 18–19; *see also* Transcript, p. 80.4, lines 7–10). *Heater of Seabrook v. Pub. Serv. Comm’n*, 324 S.C. 56, 64–65 (1996) (explaining that operating margin treatment “is particularly appropriate where a utility’s rate base has been substantially reduced” but “is *less appropriate* for utilities that have *large* rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.” (emphases added).

KIU’s rate base supports a rate of return methodology. We conclude this term of the Settlement Agreement reflects a reasonable compromise of the positions of the Parties and is reasonable under the terms of the Settlement Agreement taken and viewed as a whole. Furthermore, it is supported by evidence of record.

e. Rate Design

The Settlement Agreement adopts ORS’s recommendations regarding rate design. Hearing Exhibit 16 ¶ 7. The evidentiary support for these rate design recommendations is provided in the testimony of Witness Glenn Watkins. Witness Watkins recommended that the fixed charges for each customer class remain at their current levels, that all sewer charges remain at their current levels, and that the increase in revenues be allocated to volumetric water rates. (Transcript, p. 103.5, lines 3–8; p. 103.29, lines 17–21). The Settling Parties agree the Settlement Agreement sets forth the allocation of the revenue increase among customer classes according to ORS’s rate design recommendations. Hearing Exhibit 16 ¶ 8 & Attachment B (*see also* Transcript, p. 132.2, line 5). We conclude this term reflects a reasonable compromise of the positions of the Parties, is reasonable

under the Settlement Agreement taken and viewed as a whole, and it is supported by evidence of record.

2. Other Adjustments

The Settlement Agreement also addresses KIU's request for expenses related to a pipeline construction project. Additionally, the Settlement Agreement resolves calculations for cash working capital, including purchased water and bad debt, as well as overhead expenses for the Company and rate case expenses.

a. Secondary Pipeline Project

The Company requested additional incremental pipeline costs related to its secondary water line (Secondary Pipeline Project) in the amount of \$2.4 million. The Settling Parties agreed to establish a regulatory asset in the amount of \$1.8 million for the Secondary Pipeline Project costs, arising from an unforeseen failure of the first drill attempt and a subsequent attempt, which allowed the Project to be placed into service. Hearing Exhibit 16 ¶ 10. The amortization period of the regulatory asset is thirty (30) years. *Id.* The regulatory asset will not be placed in rate base and will not earn a return or accrue carrying costs. *Id.* (See also Transcript, p. 119.3, lines 5–8). KIU further agrees that it will not be eligible to seek recovery of any additional incremental costs relating to or arising out of the construction of the Secondary Pipeline Project in any future proceeding, including but not limited to any litigation related to or arising out of the Secondary Pipeline Project. Hearing Exhibit 16 ¶ 10.

Prior to the Settlement Agreement, the Settling Parties submitted considerable testimony with varying positions relating to the recovery of the costs of the Secondary

Pipeline Project. ORS Witness Hipp testified that the costs of the Secondary Pipeline Project stemmed from a settlement agreement between KIU, its contractor, and their insurers. Witness Hipp asserted that the costs should not be the responsibility of customers because “the Company’s responses to ORS discovery and the Federal District Court [O]rder” in the underlying litigation “do not support the Company’s claims that it took the steps necessary to carefully identify risk and mitigate potential financial losses by securing necessary insurance coverage.” (Transcript p. 73.14, lines 3–6; *see also* Transcript, pp. 49.5–49.6, citing Order⁶). Witness Hipp also testified that the settlement costs are not a “used and useful” investment, which KIU Witness Sorensen disputed. (Transcript, p. 73.5, line 19; Transcript p. 111.6, lines 14–15).

KIU Witness Nicholson testified that “the settlement was a reasonable and prudent outcome of a highly contested and very complex construction and insurance dispute,” and KIU should not be disallowed from recovering these costs. (Nicholson Rebuttal p. 2, lines 17–20). Witness Sorensen further testified that KIU went to great lengths to mitigate risk and ensure proper insurance was obtained by the appropriate party and that the settlement was a reasonable and “prudent business decision” to minimize financial impacts to customers. (Transcript, p. 111.8, lines 14–15; Transcript, p. 111.10, lines 1–14).

We conclude these terms of the Settlement Agreement regarding treatment of the Secondary Pipeline Project costs reflect a reasonable compromise of the positions of the Parties and are reasonable in view of the evidence of record presented by Witnesses Hipp, Labriola, Dennis, Sorensen, and Nicholson relating to the recoverability of the costs

⁶ Order, case no. 2:17-cv-02418-DCN, dated March 8, 2019.

associated with the Secondary Pipeline Project. (*See also* Transcript p. 119.4, lines 13–15; Dennis Settlement p. 3, line 5; Transcript, p. 80.4, line 13).

b. Cash Working Capital

The Settlement Agreement adopts KIU’s methodology in calculating its Cash Working Capital adjustment, which includes purchased water and bad debt, and requires the Company to conduct a Lead-Lag study. Hearing Exhibit 16 ¶ 11. The Lead-Lag study must be filed with the Commission in conjunction with the Company’s application in its next rate proceeding. *Id.* Additionally, ORS retains the right to review and make recommendations related to KIU’s request for cost recovery related to the Lead-Lag study. *Id.* These Settlement Agreement provisions are supported in the record by the testimony of Witnesses Burkett, Herpel, and Hipp. (Transcript, pp. 146.2–146.4; Transcript, p. 93.3, lines 22–23, p. 93.4, lines 1–4; Transcript, pp. 80.3–80.4).

Regarding purchased water and bad debt, Company Witness Burkett “reaffirmed the Company’s calculation of cash working capital using a 45-day allowance[,] which includes pro forma adjusted purchased water and per book bad debt expense in the calculation.” (Transcript, p. 93.2, lines 5-7). Witness Burkett asserted that the Commission’s treatment of cash working capital calculations is specific to the circumstances of the utility, including distinct revenue increase requests. (Transcript, p. 146.4, lines 3–19.) We conclude these terms reflect a reasonable compromise of the positions of the Parties, are reasonable under the Settlement Agreement taken and viewed as a whole, and they are supported by evidence of record.

c. Overhead Expenses

The Settling Parties agree to remove from KIU's allowable share of overhead expenses 50% of the salary, benefits, and taxes for SWWC's two (2) highest compensated executives. Hearing Exhibit 16 ¶ 12; Attachment A, Adjustment 2G. Witness Hipp testified that removing 50% of the salary, benefits, and taxes for SWWC's four (4) highest compensated executives was appropriate given the focus of these executives on maximizing profit rather than customer service and minimizing customer rates. (Transcript pp. 73.15–73.16). Witness Hipp explained that executives and officers hold a fiduciary duty to a company's shareholders and owners and that this duty can create "tension" between maximizing returns for shareholders and minimizing the financial impact of utility operations and management decisions on customers who are entitled to reliable service at the lowest reasonable rates. *Id.* Witness Hipp further testified that a sharing of executive compensation is appropriate because the executives provide benefits to both shareholders and customers. *Id.*

In response, KIU Witness Hafeez testified that executives have fiduciary duties to shareholders *and* customers, that all compensation directly tied to financial performance had been excluded from KIU's request, and that instances where the Commission has adopted this adjustment for larger, publicly traded utilities were not applicable to KIU. (Transcript, pp. 150.2–150.8). Ultimately, we conclude this term of the Settlement Agreement reflects a reasonable compromise of the positions of the Parties and is reasonable in view of the evidence of record presented by Witnesses Hipp and Hafeez relating to the recoverability of executive compensation-related overhead costs.

The Settling Parties agree to a non-precedential adjustment to include in KIU's allowable share of overhead expenses 25% of the expenses related to the SWWC Corporate Development Team. Hearing Exhibit 16 ¶ 13; Attachment A, Adjustment 2G. Witness Hipp testified that disallowance of the Corporate Development Team ("Team") costs was appropriate because customers should not "bear 100% of the costs and financial risks associated with the Company's speculative acquisition efforts," and such efforts are not related to the continued provision of safe and reliable service to KIU customers. (Transcript p. 73.18, lines 15–19). Witness Hipp also testified that it was not clear these expenditures resulted in net quantifiable benefits to customers, and that the Commission has historically disallowed merger transaction expenses in customer rates. (Transcript, pp. 73.18–73.19).

In contrast, Witness Hafeez testified that the Team's efforts have resulted in direct, net benefits to KIU customers through the growth of SWWC and corresponding reduction in KIU's allocable share of overhead. (Transcript, pp. 150.10–150.12). He further clarified that the Team was not formed after the end of the Test Year but has existed since 2015. (Transcript, p. 150.10, lines 10–11.) We conclude this term of the Settlement Agreement reflects a reasonable compromise of the positions of the Parties, is reasonable in view of the terms of the Settlement Agreement taken and viewed as a whole, and it is reasonable in view of the evidence of record presented by Witnesses Hipp and Hafeez relating to the recoverability of Corporate Development Team-related overhead costs.

d. Rate Case Expenses

The Settling Parties also agreed to accept the recommendation of the Company to amortize rate case expenses over two (2) years. Hearing Exhibit 16 ¶ 14; Attachment A,

Adjustment 2H. The Settling Parties further decided the amount of rate case expenses to be amortized over two years would be calculated through the date of the hearing. *Id.* Support for this adjustment is provided in the testimony of Witness Burkett. (Transcript, pp. 146.5–146.6). A two-year amortization period also corresponds with the duration of the Settlement Agreement’s “stay out” provision, meaning KIU’s next rate case will likely not occur in the interim. *See* Hearing Exhibit 16 ¶ 18. We conclude this term reflects a reasonable compromise of the positions of the Parties, is reasonable under the Settlement Agreement taken and viewed as a whole, and it is supported by evidence of record.

The Settlement Agreement also provided that the final revenue increase and corresponding rates would be determined based on rate case expenses updated through the completion of the hearing. The hearing was completed on April 4, 2022. At the hearing, and consistent with the Settlement Agreement, Hearing Exhibit 14 was reserved for a late-filed exhibit to be filed under seal by the Company consisting of rate case expenses updated through the hearing and supporting documentation. (Transcript, pp. 84–85). After providing its updated rate case expense information and support to ORS, and following ORS’s review, the Company filed Hearing Exhibit 14 on April 13, 2022, demonstrating \$318,938.17 of allowable rate case expenses⁷. We conclude based on the evidence of record that KIU’s demonstrated allowable rate case expenses are \$318,938.17.

⁷ The Company’s request for confidential treatment of the supporting invoices for its rate case expenses detailed in Hearing Exhibit 14 was granted by Order No. 2022-36-H.

e. Fire Hydrant Service

The Settling Parties agreed to use KIU's Test Year recorded revenues of \$39,551 for general ledger Account 440080 for Fire Hydrant Service. Hearing Exhibit 16 ¶ 15; Attachment A, Adjustment 1C. According to Witness Hunnell, this is the Company's actual Test Year revenue for fire hydrant rentals. (Transcript, p. 95.10, lines 3–4). We conclude this term of the Settlement Agreement reflects a reasonable compromise under the terms of the Settlement Agreement as a whole and is reasonable in view of the evidence of record.

f. Additional Adjustments

The Settling Parties further agreed to adjustments to gross receipts tax, licensing fees, income taxes, customer growth, cash working capital, and interest expense to reflect the terms of the Settlement Agreement, including a ROE of 8.69%. Hearing Exhibit 16 ¶ 16.

3. Future Rate Cases, Shared Services Study, and Other Terms

KIU will file its next rate case under rate of return methodology and will include rate of return information in its Application. Hearing Exhibit 16 ¶ 17. This term is consistent with the testimony of Witnesses Rothschild and Garrett. (Transcript, p. 52.8, lines 4–12; Transcript pp. 87.12–87.16). We conclude this term reflects a reasonable compromise of the positions of the Parties, is reasonable under the Settlement Agreement taken and viewed as a whole, and it is supported by evidence of record.

KIU agreed in the Settlement Agreement that it would not file another general rate case before eighteen (18) months from the date the final order is issued in this proceeding; therefore, any potential new rates would not go into effect until twenty-four (24) months

after the date the final order is issued. Hearing Exhibit 16 ¶ 18. The only exception would involve unforeseen extraordinary economic or financial conditions which may include, but not be limited to, changes in tax rates. *Id.* This “stay out” provision does not apply to filings related to pass-through charges of purchased water. *Id.* We conclude this term reflects a reasonable compromise of the positions of the Parties, is reasonable under the Settlement Agreement taken and viewed as a whole and is supported by evidence of record.

The Settlement Agreement provided that “the Company shall conduct a Shared Service Study using a third-party consultant to evaluate the contract or shared services provided to KIU from SWWC, SWWC affiliates, and the Corporate Shared Services business unit.” Hearing Exhibit 16 ¶ 22. Witness Hipp filed Settlement Testimony in support of this provision. (Transcript pp. 80.3–80.4). At the hearing, Witness Hipp further testified that shared service studies “are recognized, established regulatory tools and represent meaningful incremental innovation in South Carolina regulatory practice that will support the Commission’s ongoing efforts to establish just and reasonable rates according to objective and measurable framework.” (Transcript, p. 78, lines 19-24). At the hearing, Witness Sorensen stated that the Company will work towards retaining an independent, third-party consultant. (Transcript, pp. 135-136). We conclude this term reflects a reasonable compromise of the positions of the Parties, is reasonable under the Settlement Agreement taken and viewed as a whole and is supported by evidence of record.

The Settlement Agreement included Attachments A and B showing the Operating Experience, Rate Base, and Rate of Return under the terms of the Settlement Agreement based on rate case expenses calculated as of March 15, 2022. Attachment A provided a

summary of the revenue requirement and Attachment B provided the corresponding rates. Attachments A and B to the Settlement Agreement, under the terms of the Settlement Agreement, were subject to update for reasonable and prudent rate case expenses incurred through the date of the hearing. Hearing Exhibit 16 ¶ 5 at n.1. Evidence of the Company's reasonable and prudent rate case expenses incurred through the date of the hearing was reviewed and audited by ORS and is reflected in Hearing Exhibit 14. Order Exhibit 2 reflects the Operating Experience, Rate Base and Rate of Return for KIU corresponding to and reflecting all terms of the Settlement Agreement as described in Settlement Agreement Attachment A as updated to reflect KIU's allowable rate case expenses demonstrated in Hearing Exhibit 14. It also reflects KIU's resulting revenue requirement. Order Exhibit 3 reflects the resulting rates for each customer class corresponding to the revenue requirement and rate design consistent with the terms of the Settlement Agreement Attachment B as updated to reflect KIU's allowable rate case expenses demonstrated in Hearing Exhibit 14. As calculated in Order Exhibit 2, KIU's resulting operating margin is 10.89%

B. Commission Conclusion

The Application, testimony, exhibits, affidavits of publication, and public notices submitted by KIU comply with the procedural requirements of the South Carolina Code of Laws and the Regulations promulgated by this Commission. The Commission evaluated all the evidence in the record, including the Settlement Agreement. The Commission concludes it is just and reasonable and a fair balancing of the interests of the Company and its customers to approve the Settlement Agreement. No party opposes the Settlement

Agreement, and the Town, ORS, and Company support it as a just and reasonable resolution of all issues within this proceeding. DCA, although not a signatory to the Settlement Agreement, has no opposition to the Agreement.

Order Exhibit 2 reflects the Operating Experience, Rate Base and Rate of Return for KIU corresponding to and reflecting all terms of the Settlement Agreement as updated by Hearing Exhibit 14 for final rate case expenses and reflects KIU's resulting revenue requirement. Order Exhibit 3 reflects the resulting rates for each customer class corresponding to the revenue requirement and rate design consistent with the terms of the Settlement Agreement and as updated to reflect Hearing Exhibit 14's final rate case expenses. KIU's resulting operating margin is 10.89%

V. FINDINGS OF FACT

Based upon the discussion as set forth herein, and the record of the instant proceeding, the Commission makes the following Findings of Fact:

1. KIU is a public utility providing water and sewer services in its assigned service area located in Charleston County, South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. §58-5-210, *et. seq.* KIU's operations in South Carolina are subject to the jurisdiction of the Commission.

2. The Commission finds the appropriate test year period for this proceeding, as selected by KIU, is January 1, 2020, to December 31, 2020. KIU proposed this test year in its Application, and it was used by the Parties in this proceeding.

3. The Commission finds no party contested the use of the test year proposed by KIU in its Application, and both KIU and ORS submitted evidence regarding revenues, expenses, and proposed adjustments using the test year ending December 31, 2020.

4. The Commissions finds, for the reasons discussed above, that the Settlement Agreement attached as Order Exhibit 1 is fair, just, and reasonable for KIU and its customers. The Commission adopts and approves the Settlement in its entirety.

5. The Commission finds the terms of the Settlement Agreement, as updated consistent with the terms of the Settlement Agreement to reflect reasonable and prudent rate case expenses as demonstrated in Hearing Exhibit 14, result in rates that are fair, just, and reasonable.

6. The Commission finds that the adjustments and customer protections as discussed in the Settlement Agreement and previously in this Order are just and reasonable.

7. The Commission finds that KIU's rates should be set according to the rate base rate of return method. KIU should also file its next rate case under the rate of return methodology and include rate of return information in the application.

8. The Commission finds that granting KIU the opportunity to earn an 8.69% ROE is just and reasonable. The Commission also finds that the cost of debt of 4.57% and a capital structure consisting of 46.81% debt and 53.19% equity in the Settlement Agreement is just and reasonable. These figures are supported by the reliable, probative evidence from the entire record of this proceeding.

9. The Commission finds that KIU's operating margin is 10.89% as calculated and reflected in Order Exhibit 2. This figure is supported by the reliable, probative evidence from the proceeding.

10. For the reasons discussed herein, the Commission finds the revenue requirement and adjustments detailed in Order Exhibit 2 are just and reasonable, reflect the terms of the Settlement Agreement, and are based upon credible and probative evidence in the record, are fair and reasonable, consistent with the terms of the Settlement Agreement, and will allow KIU to continue to provide its customers with safe and reliable water and wastewater service.

11. The resulting rates for service detailed in Order Exhibit 3 are consistent with Order Exhibit 2, are just and reasonable, reflect the terms of the Settlement Agreement, and are based upon credible evidence in the record.

12. ORS has determined that the Settlement Agreement reached among the Parties is in the public interest.

13. DCA does not object to the terms of the Settlement Agreement.

VI. CONCLUSIONS OF LAW

Based upon the discussion as set forth herein, and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. The Commission is vested with the authority to regulate rates of every public utility in South Carolina and to ascertain and fix just and reasonable rates for service. S.C. Code Ann. § 58-5-210 *et. Seq.*

2. KIU is a public utility as defined in S.C. Code Ann. § 58-5-10(3) and as such is subject to the jurisdiction of this Commission.

3. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B).

4. DCA may advocate for the interest of consumers in matters before the Commission pursuant to S.C. Code Ann. § 37-6-604(C).

5. The Application, testimony, exhibits, affidavits of publication, and public notices submitted by the Company comply with the procedural requirements of the South Carolina Code of Laws and the Regulations promulgated by this Commission. S.C. Code Ann. § 58-5-240 *et. seq.*, S.C. Code Ann. Regs. 103-512.4A and 103-712.4A.

6. Rate of Return is the appropriate methodology in this case to fix just and reasonable rates for KIU. The Commission has considered the facts supporting the use of the rate of return method in accordance with the ruling of the Supreme Court of South Carolina in *Heater of Seabrook v. Pub. Serv. Comm'n*, 324 S.C. 56, 64–65 (1996).

7. A regulated utility is entitled to “an opportunity to earn a fair and reasonable return.” *Southern Bell Telephone & Telegraph Co. v Public Service Comm. of S.C.*, 270 S.C. 590, 600, 244 S.E.2d 278, 283 (1978). A return on equity for KIU’s combined water and sewer operations of 8.69% accomplishes a fair and reasonable return.

8. The rates approved in this Order are just and reasonable without undue discrimination and are also designed to meet the revenue requirement of KIU.

VII. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, executed by the Settling Parties and incorporated by reference as Order Exhibit 1, is hereby approved, accepted, and adopted by the Commission. Further, the Commission finds the Settlement Agreement is in the public interest and constitutes a reasonable resolution to this proceeding.

2. The revenue requirement and adjustments detailed in Order Exhibit 2 are hereby approved, accepted, and adopted by the Commission and made part of this Order by reference.

3. KIU's rates in this case shall be set according to the rate of return methodology, and KIU shall file its next rate case under the rate of return methodology.

4. KIU is authorized the opportunity to earn a ROE of 8.69%.

5. KIU's capital structure is 46.81% debt and 53.19% equity.

6. KIU's cost of debt is 4.57%.

7. KIU's resulting return on rate base is 6.76%.

8. Pursuant to S.C. Code Ann. § 58-5-240(H), an operating margin of 10.89% as calculated and reflected in Order Exhibit 2 is approved for KIU.

9. The resulting rates for service provided in Order Exhibit 3 are hereby approved, accepted, and adopted by the Commission and made part of this Order by reference.

10. The rates and charges approved and resulting from this Order may be charged for service provided on or after the date of this Order.

11. The Company shall provide notice of the rate adjustments approved herein to its customers either before (such as a special mailing) or contemporaneously (such as a conspicuous notice on the bill or by a bill insert) with the first bill rendered after the new rates take effect.

12. Revised tariffs shall be filed within ten (10) days of receipt of this Order, consistent with the Commission's Rules and Regulations. The tariffs should be electronically filed in a text searchable PDF format using the Commission's DMS System (<https://dms.psc.sc.gov>). The tariffs shall be consistent with the findings of this Order and agreements with the other parties to this case. The rates, fees, and charges in the revised tariffs shall be consistent with the adjustments as stipulated between the Settling Parties and the 8.69% ROE authorized in this Order.

13. KIU shall not file for a general rate case before eighteen (18) months from the date the final order is issued in this proceeding, such that new rates will not be effective prior to twenty-four (24) months from the date the final order is issued in this proceeding, except where necessary due to unforeseen extraordinary economic or financial conditions which may include, but not be limited to, changes in tax rates. This term does not apply to filings related to pass-through charges of purchased water.

14. The Company shall submit future Annual Reports for water and sewer in accordance with the Commission's instructions.

15. The Company's accounting books and records shall continue to be maintained according to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts.

16. KIU shall maintain its performance bonds currently on file with the Commission in the amounts of \$350,000 for sewer operations and \$350,000 for water operations in compliance with S.C. Code Ann. § 58-5-720.

17. KIU shall comply with all terms of the Settlement Agreement, including any terms not specifically enumerated in the ordering provisions above.

18. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



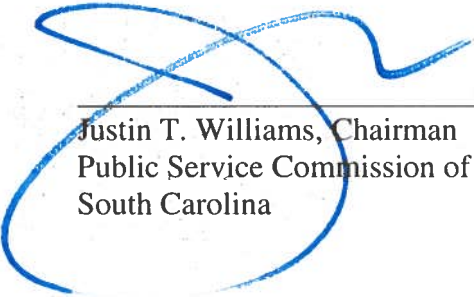
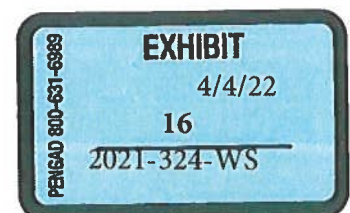

Justin T. Williams, Chairman
Public Service Commission of
South Carolina

EXHIBIT 1

Settlement Agreement



BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2021-324-WS

IN RE: Application of Kiawah Island Utility,) **SETTLEMENT**
 Incorporated to File Proposed Changes in) **AGREEMENT**
 Rates, Charges, Classifications and/or)
 Regulations for Water and Sewer Service

Pursuant to S.C. Code Ann. § 1-23-320(F), and all other applicable statutes and regulations, this Settlement Agreement ("Settlement Agreement") is made by and among the South Carolina Office of Regulatory Staff ("ORS"), Kiawah Island Utility, Inc. ("KIU" or the "Company"), the Town of Kiawah Island ("Town") (collectively referred to as the "Parties" or sometimes individually as "Party"). The South Carolina Department of Consumer Affairs ("DCA") has advised the Parties that it does not object to this Settlement Agreement and intends to so notify the Commission.

WHEREAS, the Company prepared and filed on November 30, 2021 the Application of Kiawah Island Utility, Inc. for Adjustment of Rates and Charges (Increase) and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Service (the "Application"). The test year for the Application is January 1, 2020 to December 31, 2020 ("Test Year");

WHEREAS, the above-captioned proceeding has been established by the Commission pursuant to the procedure set forth in S.C. Code Ann. § 58-5-240 *et seq.*, and the Parties to this Settlement Agreement are parties of record in the above-captioned docket;

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B);

WHEREAS, DCA by law may advocate for the interest of consumers in matters before the Commission pursuant to S.C. Code Ann. § 37-6-604(C);

WHEREAS, ORS conducted an examination of the books and records of the Company relative to matters raised in the Application, including Test Year revenues, operating expenses, depreciation and taxes paid by the Company; rate base, plant in service, working capital, capital expenditures, and other relevant accounting matters;

WHEREAS, ORS also examined all accounting and pro forma adjustments proposed by the Company, the Company's rate design and cost of service study, the Company's capital structure and cost of capital, and information related to the Company's operations;

WHEREAS, DCA also examined matters raised in the Application, the Company's capital structure and cost of capital, and information related to the Company's operations;

WHEREAS, the Town also examined matters raised in the Application and information related to the Company's operations;

WHEREAS, the Parties have varying positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of some or all of the issues would be in their best interests and, in the case of ORS, in the public interest; and,

WHEREAS, following those discussions, the Parties determined that their interests, and ORS determined that the public interest, would be best served by agreeing to this Settlement Agreement regarding issues raised by the Parties and pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms.

A. STIPULATION OF TESTIMONY AND WAIVER OF CROSS-EXAMINATION

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct, rebuttal, surrebuttal, and/or settlement testimony and exhibits (collectively, the "Stipulated Testimony") of the below witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to those that would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement. The Parties further agree to the prefiled direct, rebuttal, and surrebuttal testimony and exhibits of the below witnesses being stipulated into the record without them appearing at the merits hearing on the Application. Should the Commission deny the request that the below witnesses be excused from appearing to present their prefiled direct, rebuttal, and/or surrebuttal testimony and exhibits, the Parties reserve the right to engage in redirect examination of the below witnesses as necessary to respond to issues raised by the examination of their witnesses, if any, by non-Parties, parties that are not signatories to this Settlement Agreement, or the Commission.

KIU witnesses:

1. Donald H. Burkett
2. Mujeeb Hafeez
3. Becky Dennis
4. Benjamin E. Nicholson, V
5. Douglas H. Carlisle
6. Craig Sorensen
7. Chuck Loy

Town witness:

1. John Labriola

ORS witnesses:

1. David M. Herpel
2. Aaron K. Rabon
3. Daniel P. Hunnell II
4. Dawn M. Hipp
5. David J. Garrett

6. Glenn A. Watkins

2. The Parties agree to offer no other evidence in the proceeding other than the Stipulated Testimony and exhibits and this Settlement Agreement unless the additional evidence is to support the Settlement Agreement, consists of changes comparable to that which would be presented via an errata sheet or through a witness noting a correction or clarification, consists of a witness adopting the testimony of another if permitted by the Commission, or is responsive to issues raised by examination of the Parties' witnesses by non-Parties, parties which are not signatories to this Settlement Agreement, the Commission, or by late-filed testimony by non-parties. Subsequent to the filing of this Settlement Agreement, KIU Witness Sorensen and ORS Witness Hipp plan to file Settlement Testimony with the Commission in support of this Settlement Agreement. The Parties may also submit supplemental evidence to update rate case expenses consistent with the terms of this Settlement Agreement and the corresponding rates. The Parties agree that nothing herein will preclude each party from advancing its respective positions in the event that the Commission does not approve the Settlement Agreement in its entirety without exception, modification, or additional provisions.

B. SETTLEMENT TERMS

3. As a compromise to all of the positions advanced by the Parties, the Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the final agreement of the Parties.

4. Without prejudice to the position of any Party in future proceedings, the Parties agree to accept and adopt all recommendations, adjustments, and customer protections in the testimony and exhibits of ORS witnesses unless specifically modified by this Settlement Agreement.

Return on Common Equity, Revenue and Capital Structure

5. For purposes of this Settlement Agreement, and in recognition of the mutual compromises contained herein, the Parties further agree that the Application, Stipulated Testimony, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments appended to the Settlement Agreement as Attachment A are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) the rates generate a revenue increase of approximately \$555,000 on an adjusted test-year basis;¹ (iii) rates in this proceeding shall be established based on an 8.69% return on common equity ("ROE"), KIU's actual cost of debt of 4.57%, and a capital structure that includes 46.81% debt and 53.19% equity; and, (iv) the rates resulting from the Settlement Agreement are designed to recover the revenue requirement in an equitable and reasonable manner, are just and reasonable, and should be adopted by the Commission.

6. The Company's Application requested that the Commission set rates for the Company according to the operating margin method. The Parties agree that for this proceeding, KIU's rates shall be set according to the return on rate base method.

7. The parties agree to ORS's recommendations regarding rate design.

8. The Parties agree that the proposals and recommendations set forth in this Settlement Agreement will result in a Rate Design summarized in Attachment B, which sets forth the allocation of the revenue increase among customer classes according to ORS's rate design recommendations.

¹ The revenue increase and corresponding rates are based on documented rate case expenses as of March 15, 2022. Accordingly, the revenue increase and corresponding rates are subject to increase based on rate case expenses updated through the completion of the hearing. The Parties are permitted to provide supplemental evidence of rate case expenses incurred through the hearing and to provide corresponding updated rates through proposed orders.

9. In its Rebuttal Testimony, the Company recommended an ROE of 9.35%. This Settlement Agreement provides for an ROE of 8.69%. With this Settlement Agreement, a residential water customer using 11,000 gallons per month would see a monthly increase of approximately \$5.83, while sewer customers will not see any change to their rates; whereas based on the Company's Application, a residential water customer using 11,000 gallons per month would see a monthly increase of approximately \$8.31, and a residential sewer customer using 11,000 gallons of water would see an increase of approximately \$3.49.

Other Adjustments

10. The Application requested additional incremental pipeline costs related to the construction of a secondary water line ("Secondary Pipeline Project") in the amount of \$2.4M. The parties agree to establish a regulatory asset with a value of \$1,800,000 corresponding to the allowable incremental Secondary Pipeline Project costs arising from the unforeseen failure of the first drill attempt and KIU's efforts to induce its contractor to undertake the second drill, which was successful and ultimately resulted in the Secondary Pipeline Project being placed into service for the benefit of KIU's customers (Attachment A, Adjustment 3B). The amortization period of the regulatory asset is 30 years, and the regulatory asset will not be placed in rate base and will not earn a return or accrue carrying costs. KIU agrees that it will not be eligible in any future proceeding to seek recovery of any additional incremental costs relating to or arising out of the construction of the Secondary Pipeline, including but not limited to any litigation related to or arising out of the Secondary Pipeline Project.

11. The Parties agree to KIU's methodology in calculating its Cash Working Capital adjustment, which is inclusive of purchased water and bad debt (Attachment A, Adjustment 19). The Company shall conduct a Lead-Lag study and file it with the Commission with the Company's

application in its next rate proceeding in order to inform the determination of the Company's cash working capital. ORS supports such study, and KIU may request recovery of the costs associated with the study in KIU's next rate case. ORS retains the right to review and make recommendations related to KIU's requests for cost recovery related to the Lead-Lag study in future base rate proceedings

12. The Parties agree to an adjustment to remove from KIU's allowable share of overhead expenses 50% of the salary, benefits, and taxes for SouthWest Water Company's ("SWWC") two highest compensated executives (Attachment A, Adjustment 2G). The Parties agree this adjustment is non-precedential.

13. The Parties agree to an adjustment to include in KIU's allowable share of overhead expenses 25% of the expenses related to the SWWC Corporate Development Team (Attachment A, Adjustment 2G). The Parties agree this adjustment is non-precedential. ORS reserves its right to examine and challenge the appropriateness of corporate development, merger transaction, and merger transition costs in any future proceedings.

14. The Parties agree to an adjustment to include for recovery the amount of rate case expenses incurred by KIU through the hearing and that these expenses are to be amortized over two (2) years (Attachment A, Adjustment 2H).

15. The Parties agree to use KIU's Test Year revenues of \$39,551 for Account 440080 – Fire Hydrant Service (Attachment A, Adjustment 1C).

16. The Parties agree to adjustments to gross receipts tax, licensing fees, income taxes, customer growth, cash working capital, and interest expense to reflect the terms above and a return on equity of 8.69%.

Other Terms

17. KIU will file its next rate case under rate of return methodology and include rate of return information in the application

18. KIU shall not file for a general rate case before eighteen (18) months from the date the final order is issued in this proceeding, such that new rates will not be effective prior to twenty-four (24) months from the date the final order is issued in this proceeding, except where necessary due to unforeseen extraordinary economic or financial conditions which may include, but not be limited to, changes in tax rates. Additionally, this term does not apply to filings related to pass through charges of purchased water.

19. The Company shall submit future Annual Reports for water and sewer in accordance with the Commission's instructions.

20. The Company shall maintain its accounting books and records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts.

21. KIU shall maintain performance bonds currently on file with the Commission in the amounts of \$350,000 for sewer operations and \$350,000 for water operations in compliance with S.C. Code Ann. § 58-5-720.

22. The Company shall conduct a Shared Service Study using a third-party consultant to evaluate the contract or shared services provided to KIU from SWWC, SWWC affiliates, and the Corporate Shared Services business unit. The time period for the Shared Service Study shall be the test year of KIU's next rate case. The objective of the Shared Service Study shall be to determine if the charges incurred by KIU during that test year are reasonable and necessary. ORS supports such study, and KIU may request recovery of the costs associated with the study in KIU's next rate case. ORS retains the right to review and make recommendations related to KIU's

requests for cost recovery related to the Shared Service Study in future base rate proceedings. At a minimum, the Shared Service Study shall answer the following questions:

- a. Were the shared services provided by SWWC, SWWC affiliates and the Corporate Shared Services business unit reasonable?
 - b. Was KIU charged the lower of cost or market value for the managerial and professional services provided by SWWC, SWWC affiliates and the Corporate Shared Services business unit?
 - c. Did the shared services provided by SWWC, SWWC affiliates and the Corporate Shared Services business unit result in duplication of effort, labor or cost?
 - d. Are the services KIU receives from SWWC, SWWC affiliates and the Corporate Shared Services business unit necessary?
 - e. What are the quantifiable benefits from the services KIU receives from SWWC, SWWC affiliates and the Corporate Shared Services business unit and how do they compare to the cost?
 - f. Do the shared services provided by SWWC, SWWC affiliates and the Corporate Shared Services business unit to KIU enhance KIU's operational efficiency?
 - g. What recommendations for improvement should be considered?
23. All parties agree to forgive outstanding discovery or data requests and issue no additional requests, except to the extent necessary to update rate case expenses.

C. REMAINING SETTLEMENT TERMS AND CONDITIONS

24. The Parties agree that this Settlement Agreement is reasonable, is in the public interest, and is in accordance with law and regulatory policy. This Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party in any future proceeding. This

Settlement Agreement does not establish any precedent with respect to the issues resolved herein and in no way precludes any Party herein from advocating an alternative position in any future proceeding.

25. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B), which reads in part:

... 'public interest' means the concerns of the using and consuming public with respect to public utility services, regardless of the class of customer and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties is in the public interest as defined above.

26. The Parties agree that this Settlement Agreement must be read and construed as a whole and to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission in its entirety as a fair, reasonable and full resolution of the issues described herein. The Parties agree to use reasonable efforts before any reviewing court in the event of appeal to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein; however, ORS shall not utilize social media to defend a Commission order.

27. The Parties offer this Settlement Agreement to the Commission in its entirety as a comprehensive settlement which is the product of extensive negotiations between the parties. The Parties ask the Commission to approve this Settlement Agreement in its entirety without exception, modification, or additional provisions.

28. The Parties on behalf of themselves and their agents (including but not limited to their attorneys, hired consultants, and any independent contractors) agree that they have entered

into this Settlement Agreement freely and voluntarily and that none of them have been pressured or unduly encouraged to enter into this Settlement Agreement. All Parties agree they have had full and adequate opportunity to consult with their counsel regarding this Settlement Agreement and have fully availed themselves of this opportunity.

29. The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery, or rates of return that any Party may seek or advocate for in any future proceeding. If the Commission declines to approve this Settlement Agreement in its entirety and without modification, then any Party may withdraw from the Settlement Agreement without penalty or further obligation.

30. This Settlement Agreement shall be interpreted according to South Carolina law.

31. This Settlement Agreement contains the final and complete agreement of the Parties. There are no other terms or conditions to which the Parties have agreed.

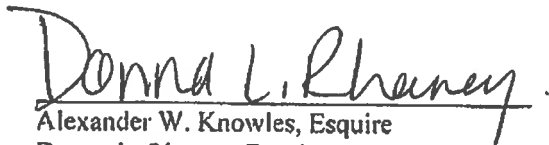
32. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, but prior to a Commission decision on the merits of this proceeding, a Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, that Party may withdraw from the Settlement Agreement with written notice to every other Party.

33. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries,

affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

34. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement, by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

Representing the South Carolina Office of Regulatory Staff



Alexander W. Knowles, Esquire

Donna L. Rhaney, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, South Carolina 29201

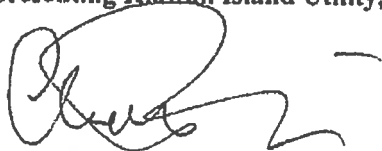
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Representing Kiawah Island Utility, Inc.

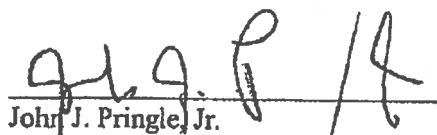


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Representing the Town of Kiawah Island

A handwritten signature in black ink, appearing to read "J.J. Pringle, Jr.", is written over a horizontal line.

John J. Pringle, Jr.
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Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Combined Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>	(5) <u>After</u> <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	9,477,169	140,147 (1)	9,617,316	555,000 (21)	10,172,316
<u>Total Operating Revenues</u>	9,477,169	140,147	9,617,316	555,000	10,172,316
<u>Operating Expenses:</u>					
Operating Expenses	6,888,756	(620,388) (2)	6,268,368	0	6,268,368
Depreciation and Amortization Expenses	851,478	203,607 (3)	1,055,085	0	1,055,085
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	73,383 (5)	73,383	0	73,383
Utility Regulatory Assessment Fees	0	68,166 (6)	68,166	3,934 (22)	72,100
Property Taxes	487,467	81,655 (7)	569,122	0	569,122
Payroll Taxes	69,389	7,907 (8)	77,296	0	77,296
Other Taxes and Licenses	162,256	(51,845) (9)	110,411	1,665 (23)	112,076
Federal Income Taxes	(490,598)	662,013 (10)	171,415	109,606 (24)	281,021
State Income Taxes	(102,585)	145,546 (11)	42,961	27,470 (25)	70,431
Deferred Federal Income Taxes	500,510	(500,510) (12)	0	0	0
Deferred State Income Taxes	94,322	(94,322) (13)	0	0	0
<u>Total Operating Expenses</u>	8,504,251	(47,082)	8,457,169	142,675	8,599,844
<u>Net Utility Operating Income (Loss)</u>	972,918	187,229	1,160,147	412,325	1,572,472
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(44,841)	44,841 (14)	0	0	0
Add: Customer Growth	0	0	0	21,649 (26)	21,649
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	35,168 (27)	35,168
<u>Net Income (Loss) for Return</u>	928,077	232,070	1,160,147	469,142	1,629,289
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	55,097,995	1,839,517 (15)	56,937,512	0	56,937,512
Accumulated Depreciation	(22,922,989)	(1,391,186) (16)	(24,314,175)	0	(24,314,175)
Net Plant in Service	32,175,006	448,331	32,623,337	0	32,623,337
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	8,697,105	385,259 (17)	9,082,364	0	9,082,364
Accumulated Deferred Income Taxes	(992,271)	119,705 (18)	(872,566)	0	(872,566)
Excess Deferred Income Taxes (EDIT)	(672,744)	0	(672,744)	0	(672,744)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	95,590	0	95,590	0	95,590
Cash Working Capital	861,095	(77,549) (19)	783,546	0	783,546
<u>Total Rate Base</u>	23,212,500	875,746	24,088,246	0	24,088,246
<u>Return on Rate Base</u>	4.00%		4.82%		6.76%
<u>Operating Margin</u>	0.31%		6.71%		10.95%
<u>Interest Expense</u>	898,913	(383,613) (20)	515,300	0	515,300

Klawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Water Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>	(5) <u>After</u> <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,308,931	54,782 (1)	7,363,713	555,000 (21)	7,918,713
<u>Total Operating Revenues</u>	7,308,931	54,782	7,363,713	555,000	7,918,713
<u>Operating Expenses:</u>					
Operating Expenses	5,396,456	(275,347) (2)	5,121,109	0	5,121,109
Depreciation and Amortization Expenses	579,841	161,337 (3)	741,178	0	741,178
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	21,522 (5)	21,522	0	21,522
Utility Regulatory Assessment Fees	0	52,193 (6)	52,193	3,934 (22)	56,127
Property Taxes	287,924	167,796 (7)	455,720	0	455,720
Payroll Taxes	40,985	4,671 (8)	45,656	0	45,656
Other Taxes and Licenses	95,837	(20,537) (9)	75,300	1,665 (23)	76,965
Federal Income Taxes	(4,589,162)	4,671,891 (10)	82,729	109,606 (24)	192,335
State Income Taxes	(959,604)	980,338 (11)	20,734	27,470 (25)	48,204
Deferred Federal Income Taxes	4,681,887	(4,681,887) (12)	0	0	0
Deferred State Income Taxes	882,310	(882,310) (13)	0	0	0
<u>Total Operating Expenses</u>	6,459,730	177,373	6,637,103	142,675	6,779,778
<u>Net Utility Operating Income (Loss)</u>	849,201	(122,591)	726,610	412,325	1,138,935
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(45,452)	45,452 (14)	0	0	0
Add: Customer Growth	0	0	0	17,305 (26)	17,305
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	27,818 (27)	27,818
<u>Net Income (Loss) for Return</u>	803,749	(77,139)	726,610	457,448	1,184,058
<u>Original Cost Rate Base: Water</u>					
Gross Plant in Service	33,250,642	1,544,011 (15)	34,794,653	0	34,794,653
Accumulated Depreciation	(11,555,949)	(774,322) (16)	(12,330,271)	0	(12,330,271)
Net Plant in Service	21,694,693	769,689	22,464,382	0	22,464,382
Contributions in Aid of Construction (CIAC)	(5,860,751)	0	(5,860,751)	0	(5,860,751)
Accumulated Amortization of CIAC	2,757,281	130,008 (17)	2,887,289	0	2,887,289
Accumulated Deferred Income Taxes	(784,865)	94,684 (18)	(690,181)	0	(690,181)
Excess Deferred Income Taxes (EDIT)	(532,126)	0	(532,126)	0	(532,126)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	92,362	0	92,362	0	92,362
Cash Working Capital	674,557	(34,418) (19)	640,139	0	640,139
<u>Total Rate Base</u>	18,457,892	959,963	19,417,855	0	19,417,855
<u>Return on Rate Base</u>	4.35%		3.74%		6.10%
<u>Operating Margin</u>	3.73%		4.23%		9.71%
<u>Interest Expense</u>	530,947	(115,557) (20)	415,390	0	415,390

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Sewer Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>	(5) <u>After</u> <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	2,168,238	85,365 (1)	2,253,603	0 (21)	2,253,603
<u>Total Operating Revenues</u>	2,168,238	85,365	2,253,603	0	2,253,603
<u>Operating Expenses:</u>					
Operating Expenses	1,492,300	(345,041) (2)	1,147,259	0	1,147,259
Depreciation and Amortization Expenses	271,637	42,270 (3)	313,907	0	313,907
Amortization of Utility Plant Acquisition Adjustments	0	0 (4)	0	0	0
Amortization Expense - Other	0	51,861 (5)	51,861	0	51,861
Utility Regulatory Assessment Fees	0	15,973 (6)	15,973	0 (22)	15,973
Property Taxes	199,543	(86,141) (7)	113,402	0	113,402
Payroll Taxes	28,404	3,236 (8)	31,640	0	31,640
Other Taxes and Licenses	66,419	(31,308) (9)	35,111	0 (23)	35,111
Federal Income Taxes	4,098,564	(4,009,878) (10)	88,686	0 (24)	88,686
State Income Taxes	857,019	(834,792) (11)	22,227	0 (25)	22,227
Deferred Federal Income Taxes	(4,181,377)	4,181,377 (12)	0	0	0
Deferred State Income Taxes	(787,988)	787,988 (13)	0	0	0
<u>Total Operating Expenses</u>	2,044,521	(224,455)	1,820,066	0	1,820,066
<u>Net Utility Operating Income (Loss)</u>	123,717	309,820	433,537	0	433,537
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	611	(611) (14)	0	0	0
Add: Customer Growth	0	0	0	4,344 (26)	4,344
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	7,350 (27)	7,350
<u>Net Income (Loss) for Return</u>	124,328	309,209	433,537	11,694	445,231
<u>Original Cost Rate Base: Sewer</u>					
Gross Plant in Service	21,847,353	295,506 (15)	22,142,859	0	22,142,859
Accumulated Depreciation	(11,367,040)	(616,864) (16)	(11,983,904)	0	(11,983,904)
Net Plant in Service	10,480,313	(321,358)	10,158,955	0	10,158,955
Contributions in Aid of Construction (CIAC)	(11,507,271)	0	(11,507,271)	0	(11,507,271)
Accumulated Amortization of CIAC	5,939,824	255,251 (17)	6,195,075	0	6,195,075
Accumulated Deferred Income Taxes	(207,406)	25,021 (18)	(182,385)	0	(182,385)
Excess Deferred Income Taxes (EDIT)	(140,618)	0	(140,618)	0	(140,618)
Materials and Supplies	0	0	0	0	0
Prepayments	3,228	0	3,228	0	3,228
Cash Working Capital	186,538	(43,131) (19)	143,407	0	143,407
<u>Total Rate Base</u>	4,754,608	(84,217)	4,670,391	0	4,670,391
<u>Return on Rate Base</u>	2.61%		9.28%		9.53%
<u>Operating Margin</u>	-11.24%		14.80%		15.32%
<u>Interest Expense</u>	367,966	(268,056) (20)	99,910	0	99,910

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>				
(1)	<u>Utility Operating Revenues</u>			
(1)	(A) To adjust revenue based the number of customers as of September 2021 at current tariffed rates.			
	Per Settlement	259,647	130,532	129,115
	Per KIU	259,647	130,532	129,115
(2)	(B) To remove tap-in revenue.			
	Per Settlement	(119,500)	(75,750)	(43,750)
	Per KIU	(119,500)	(75,750)	(43,750)
	(C) To normalize fire hydrant rental revenues.			
	Per Settlement	0	0	0
	Per KIU	0	0	0
(1)	<u>Total Utility Operating Revenues Adjustment</u>			
	Total Per Settlement	140,147	54,782	85,365
	Per KIU	140,147	54,782	85,365
(2)	<u>Operating Expenses</u>			
(3)	(A) To annualize payroll related expenses to reflect known and measurable increases in effect for 2022 based on payroll information. Allocated between water and sewer - 59.07% and 40.93%.			
	Per Settlement	121,384	71,702	49,682
	Per KIU	94,492	55,816	38,676
(4)	(B) To increase purchased water costs to reflect increased costs charged by St. John's Water Company.			
	Per Settlement	238,229	238,229	0
	Per KIU	238,229	238,229	0

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(5)	(C) To increase purchased power for Santee Cooper settlement.			
	Per Settlement	27,682	16,352	11,330
	Per KIU	27,682	16,352	11,330
(6)	(D) To remove tap-in expenses.			
	Per Settlement	(119,500)	(75,750)	(43,750)
	Per KIU	(119,500)	(75,750)	(43,750)
(7)	(E) To adjust accounting costs for known audit costs. Allocated between water and sewer - 59.07% and 40.93%.			
	Per Settlement	339	200	139
	Per KIU	339	200	139
(8)	(F) To remove nonrecurring legal fees. Allocated between water and sewer - 59.07% and 40.93%.			
	Per Settlement	(313,423)	(185,139)	(128,284)
	Per KIU	(313,423)	(185,139)	(128,284)
(9)	(G) To adjust for SWWC management fees to reflect the 3-factor overhead allocation. Allocated between water and sewer - 59.07% and 40.93%.			
	Per Settlement	(517,522)	(305,700)	(211,822)
	Per KIU	(436,606)	(257,903)	(178,703)
(10)	(H) To amortize rate case expenses over two years. Allocated between water and sewer - 59.07% and 40.93%.			
	Per Settlement	(47,517)	(28,068)	(19,449)
	Per KIU	(47,517)	(28,062)	(19,455)
(11)	(I) To remove nonallowable expenses.			
	Per Settlement	(10,060)	(7,173)	(2,887)
	Per KIU	(3,006)	(3,006)	0
(2)	<u>Total Operating Expenses Adjustment</u>			
	Total Per Settlement	(620,388)	(275,347)	(345,041)
	Total Per KIU	(559,310)	(239,263)	(320,047)

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #			\$	\$	\$
		Description	Combined Operations	Water Operations	Sewer Operations
(12)	(3)	<u>Depreciation & Amortization Expenses</u>			
	(A)	To adjust depreciation and amortization for 2021 calculated depreciation, pro forma assets placed in service in 2021, and allocated corporate overhead depreciation.			
		Per Settlement	143,607	101,337	42,270
		Per KIU	236,788	158,130	78,658
	(B)	To adjust amortization expense for secondary water line incremental pipeline costs regulatory asset of \$1,800,000 over 30 years.			
		Per Settlement	60,000	60,000	0
		Per KIU	0	0	0
(3)		<u>Total Depreciation & Amortization Expense Adjustment</u>			
		Total Per Settlement	203,607	161,337	42,270
		Total Per KIU	236,788	158,130	78,658
(13)	(4)	<u>Amortization of Utility Plant Acquisition - Water Rights</u>			
		To adjust for fully amortized impact agreement.			
		Per Settlement	(22,294)	(22,294)	0
		Per KIU	(22,294)	(22,294)	0
(14)	(5)	<u>Amortization Expense - Other</u>			
		To amortize known and measurable maintenance costs incurred for sludge removal, tank painting, and Covid-19 personal protective equipment.			
		Per Settlement	73,383	21,522	51,861
		Per KIU	73,383	21,522	51,861
(6)		<u>Utility Regulatory Assessment Fees</u>			
(15)	(A)	To reclass test year gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	54,372	32,118	22,254
		Per KIU	51,748	30,568	21,180

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. # Adj. #			\$	\$	\$
		Description	Combined Operations	Water Operations	Sewer Operations
(16)	(B)	To adjust gross receipts tax after the accounting and pro forma adjustments using a factor of .708793%.			
		Per Settlement	13,794	20,075	(6,281)
		Per KIU	(8)	(5)	(3)
(6)		Total Utility Regulatory Assessment Fees Adjustment			
		Total Per Settlement	68,166	52,193	15,973
		Total Per KIU	51,740	30,563	21,177
(17)	(7)	Property Taxes			
		To adjust property taxes for expected increase.			
		Per Settlement	81,655	167,796	(86,141)
		Per KIU	146,926	86,789	60,137
(18)	(8)	Payroll Taxes			
		To increase payroll tax for payroll increase. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	7,907	4,671	3,236
		Per KIU	5,559	3,284	2,275
(9)		Other Taxes and Licenses			
(19)	(A)	To remove gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	(54,372)	(32,118)	(22,254)
		Per KIU	(51,748)	(30,568)	(21,180)
(20)	(B)	To adjust corporate license fee for proforma fair market value (.001) and revenue changes (.003).			
		Per Settlement	2,527	11,581	(9,054)
		Per KIU	4,649	2,746	1,903
(9)		Total Other Taxes and Licenses Adjustment			
		Total Per Settlement	(51,845)	(20,537)	(31,308)
		Total Per KIU	(47,099)	(27,822)	(19,277)

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #		Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(21)	(10)	<u>Federal Income Taxes</u>			
		To adjust federal income taxes on pro forma income at 21%.			
		Per Settlement	662,013	4,671,891	(4,009,878)
		Per KIU	621,309	4,702,794	(4,081,485)
(21)	(11)	<u>State Income Taxes</u>			
		To adjust state income taxes on pro forma income at 5%.			
		Per Settlement	145,546	980,338	(834,792)
		Per KIU	135,344	988,083	(852,739)
(22)	(12)	<u>Deferred Federal Income Taxes</u>			
		To remove deferred federal income tax expense.			
		Per Settlement	(500,510)	(4,681,887)	4,181,377
		Per KIU	(500,510)	(4,681,887)	4,181,377
(22)	(13)	<u>Deferred State Income Taxes</u>			
		To remove deferred state income tax expense.			
		Per Settlement	(94,322)	(882,310)	787,988
		Per KIU	(94,322)	(882,310)	787,988
(23)	(14)	<u>Other Operating Income</u>			
		To reverse gains / losses on disposition of property.			
		Per Settlement	44,841	45,452	(611)
		Total Per KIU	44,841	45,452	(611)
(15)		<u>Gross Plant In Service</u>			
		To adjust gross plant in service as of 12/31/21.			
		Per Settlement	1,839,517	1,544,011	295,506
		Per KIU	4,200,881	3,828,264	372,617

Attachment A

Klawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(16)	<u>Accumulated Depreciation</u>			
	To adjust accumulated depreciation as of 12/31/21.			
	Per Settlement	(1,391,186)	(774,322)	(616,864)
	Per KIU	(1,023,987)	(660,696)	(363,291)
(17)	<u>Accumulated Amortization of CIAC</u>			
	To adjust accumulated amortization of contributions in aid of construction as of 12/31/21.			
	Per Settlement	385,259	130,008	255,251
	Per KIU	385,259	130,008	255,251
(18)	<u>Accumulated Deferred Income Taxes</u>			
	To adjust accumulated deferred income taxes.			
	Per Settlement	119,705	94,684	25,021
	Per KIU	119,705	94,684	25,021
(19)	<u>Cash Working Capital</u>			
	To adjust cash working capital after accounting and pro forma adjustments.			
	Per Settlement	(77,549)	(34,418)	(43,131)
	Per KIU	(69,914)	(29,908)	(40,006)
(24) (20)	<u>Interest Expense</u>			
	To synchronize interest expense with the portion of rate base financed by debt.			
	Per Settlement	(383,613)	(115,557)	(268,056)
	Per KIU	(325,084)	(192,027)	(133,057)

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

<u>KIU Settlement</u> <u>Adj. #Adj. #</u>	<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
<u>Settlement Proposed Adjustment</u>				
(25) (21)	<u>Utility Operating Revenues</u>			
	To adjust revenues to reflect the settlement rates.			
	Per Settlement	555,000	555,000	0
	Per KIU	1,355,996	1,101,606	254,390
(26) (22)	<u>Utility Regulatory Assessment Fees</u>			
	To increase gross receipts after settlement adjustment using a factor of .708793%.			
	Per Settlement	3,934	3,934	0
	Per KIU	9,611	7,808	1,803
(27) (23)	<u>Other Taxes and Licenses</u>			
	To increase the corporate license fee after settlement adjustment.			
	Per Settlement	1,665	1,665	0
	Per KIU	4,068	3,305	763
(28) (24)	<u>Federal Income Taxes</u>			
	To adjust federal income taxes after settlement adjustment using a 21% tax rate.			
	Per Settlement	109,606	109,606	0
	Per KIU	267,792	217,553	50,239
(28) (25)	<u>State Income Taxes</u>			
	To adjust state income taxes after settlement adjustment using a 5% tax rate.			
	Per Settlement	27,470	27,470	0
	Per KIU	67,116	54,525	12,591

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
		Description			
(29)	(26)	<u>Customer Growth</u>			
To adjust for customer growth based on the total operating income after settlement adjustment. The customer growth factors are 1.5194% for water and 1.0019% for sewer.					
		Per Settlement	21,649	17,305	4,344
		Per KIU	28,971	24,080	4,891
(30)	(27)	<u>Amortization of Excess Accumulated Deferred Income Tax</u>			
To adjust for the annual amortization of excess accumulated deferred income taxes due to the Tax Cuts and Jobs Act.					
		Per Settlement	35,168	27,818	7,350
		Per KIU	35,168	27,817	7,351

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Attachment A

Klawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2020

	Combined Operations \$	Asset Class	Water Operations \$	Asset Class	Sewer Operations \$
Plant in Service					
Land and Land Rights	5,268,252	303.2	3,468,252	353.6	1,800,000
Structures & Improvements	16,113,909	304.2	12,717,812	354.4	3,396,097
Wells	171,381	307.2	171,381	N/A	0
Water Treatment	49,679	N/A	0	355.4	49,679
Collections Sewers - Gravity	13,649,037	N/A	0	360.2	13,649,037
Collections Sewers - Force	2,141,766	N/A	0	361.2	2,141,766
Pumping Equipment	1,449,612	311.2	1,117,843	371.3	331,769
Aquifer Storage & Recovery (ASR) Equipment	1,340,815	330.4	1,340,815	N/A	0
Mains	10,459,792	331.4	10,459,792	N/A	0
Meter & Meter Installation	1,718,873	334.4	1,718,873	N/A	0
Fire Hydrants	284,840	335.4	284,840	N/A	0
Other Plant & Miscellaneous Equipment	1,042,889	339.4	917,292	389.4	125,597
Office Furniture & Equipment	297,538	340.5	130,305	390.7	167,233
Transportation Equipment	595,602	341.5	294,151	391.7	301,451
Tools, Shop, and Garage	20,994	343.5	10,497	393.7	10,497
Equipment - Meter	1,050	N/A	0	394.7	1,050
Communication Equipment	2,278	346.5	1,139	396.7	1,139
Miscellaneous Equipment	9,596	347.5	4,798	397.7	4,798
Impact Fees (Water Rights)	1,921,989	302.1	1,921,989	N/A	0
Gross Plant in Service - KIU	56,539,892		34,559,779		21,980,113
SWWC - Plant in Service Allocation	397,620	N/A	234,874	N/A	162,746
Total Gross Plant in Service	56,937,512		34,794,653		22,142,859
Contributions in Aid of Construction (CIAC)	(17,368,022)	331.4.C	(5,860,751)	360.2.C	(11,507,271)
Depreciation Expense					
Land and Land Rights	0	303.2	0	353.6	0
Structures & Improvements	357,293	304.2	268,399	354.4	88,894
Wells	9,272	307.2	9,272	N/A	0
Water Treatment	1,771	N/A	0	355.4	1,771
Collections Sewers - Gravity	307,981	N/A	0	360.2	307,981
Collections Sewers - Force	52,729	N/A	0	361.2	52,729
Pumping Equipment	73,526	311.2	46,172	371.3	27,354
Aquifer Storage & Recovery (ASR) Equipment	31,795	330.4	31,795	N/A	0
Mains	242,568	331.4	242,568	N/A	0
Meter & Meter Installation	58,953	334.4	58,953	N/A	0
Fire Hydrants	7,301	335.4	7,301	N/A	0
Other Plant & Miscellaneous Equipment	62,724	339.4	55,196	389.4	7,528
Office Furniture & Equipment	17,508	340.5	4,758	390.7	12,750
Transportation Equipment	61,118	341.5	30,559	391.7	30,559
Tools, Shop, and Garage	1,400	343.5	700	393.7	700
Equipment - Meter	210	N/A	0	394.7	210
Communication Equipment	456	346.5	228	396.7	228
Miscellaneous Equipment	960	347.5	480	397.7	480
Total Depreciation Expense - KIU	1,287,565		756,381		531,184
SWWC - Depreciation Expense Allocation	92,779		54,805		37,974
Total Depreciation Expense	1,380,344		811,186		569,158
CIAC Amortization Expense	(385,259)	331.4.C	(130,008)	360.2.C	(255,251)
Depreciation & Amortization Expense	995,085		681,178		313,907
Depreciation & Amortization Expense - Per Books	851,478		579,841		271,637
Depreciation & Amortization Expense Adjustment #3A	143,607		101,337		42,270

Attachment A

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2020

	Combined Operations \$	Asset Class	Water Operations \$	Asset Class	Sewer Operations \$
Accumulated Depreciation					
Land and Land Rights	0	303.2	0	353.6	0
Structures & Improvements	(5,496,994)	304.2	(3,262,294)	354.4	(2,234,700)
Wells	(36,553)	307.2	(36,553)	N/A	-
Water Treatment	(43,038)	N/A	0	355.4	(43,038)
Collections Sewers - Gravity	(7,653,315)	N/A	0	360.2	(7,653,315)
Collections Sewers - Force	(1,458,240)	N/A	0	361.2	(1,458,240)
Pumping Equipment	(903,918)	311.2	(789,899)	371.3	(114,019)
Aquifer Storage & Recovery (ASR) Equipment	(520,250)	330.4	(520,250)	N/A	0
Mains	(4,686,985)	331.4	(4,686,985)	N/A	0
Meter & Meter Installation	(62,573)	334.4	(62,573)	N/A	0
Fire Hydrants	(194,139)	335.4	(194,139)	N/A	0
Other Plant & Miscellaneous Equipment	(691,661)	339.4	(631,251)	389.4	(60,410)
Office Furniture & Equipment	(253,600)	340.5	(118,326)	390.7	(135,274)
Transportation Equipment	(381,059)	341.5	(186,880)	391.7	(194,179)
Tools, Shop, and Garage	(2,256)	343.5	(1,128)	393.7	(1,128)
Equipment - Meter	(210)	N/A	-	394.7	(210)
Communication Equipment	(798)	346.3	(399)	396.7	(399)
Miscellaneous Equipment	(1,304)	347.5	(652)	397.7	(652)
Impact Fees (Water Rights)	(1,711,451)	302.1	(1,711,451)	N/A	0
Total Accumulated Depreciation - KIU	(24,098,344)		(12,202,780)		(11,895,564)
SWWC - Accumulated Depreciation Allocation	(215,831)	N/A	(127,491)	N/A	(88,340)
Accumulated Depreciation	(24,314,175)		(12,330,271)		(11,983,904)
Accumulated Amortization of CIAC	9,082,364	331.4.C	2,887,289	360.2.C	6,195,075

Attachment A

Klawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2020

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	9,617,316	7,363,713	2,253,603
Operating Expenses	8,242,793	6,533,640	1,709,153
Net Operating Income Before Taxes	1,374,523	830,073	544,450
Less: Annualized Interest Expense	515,300	415,390	99,910
Taxable Income - State	859,223	414,683	444,540
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	42,961	20,734	22,227
Less: State Income Taxes Per Books	(102,585)	(959,604)	857,019
State Income Tax Adjustment - Accounting and Pro Forma Adjustment #11	145,546	980,338	(834,792)
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	816,262	393,949	422,313
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	171,415	82,729	88,686
Less: Federal Income Taxes Per Books	(490,598)	(4,589,162)	4,098,564
Federal Income Tax Adjustment - Accounting and Pro Forma Adjustment #10	662,013	4,671,891	(4,009,878)
After Settlement Proposed Adjustment			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	10,172,316	7,918,713	2,253,603
Operating Expenses	8,248,392	6,539,239	1,709,153
Net Operating Income Before Taxes	1,923,924	1,379,474	544,450
Less: Annualized Interest Expense	515,300	415,390	99,910
Taxable Income - State	1,408,624	964,084	444,540
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	70,431	48,204	22,227
Less: State Income Taxes After Accounting & Pro Forma Adjustments	42,961	20,734	22,227
State Income Tax Adjustment - After Proposed Adjustment #25	27,470	27,470	0
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	1,338,193	915,880	422,313
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	281,021	192,335	88,686
Less: Federal Income Taxes After Accounting & Pro Forma Adjustments	171,415	82,729	88,686
Federal Income Tax Adjustment - After Proposed Adjustment #24	109,606	109,606	0

Attachment A

Kiawah Island Utility, Inc.
Cash Working Capital Allowance
For the Test Year Ended December 31, 2020

After Accounting & Pro Forma Adjustments

	Combined	Water	Sewer
Operating Expenses	6,268,368	5,121,109	1,147,259
Less: Bad Debt Expense	0	0	0
Less: Purchased Water	0	0	0
Net Operating Expenses	6,268,368	5,121,109	1,147,259
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital	783,546	640,139	143,407
Less: Cash Working Capital - Application Per Books	861,095	674,557	186,538
Cash Working Capital Adjustment #19	(77,549)	(34,418)	(43,131)

Marshall Island Utility, Inc.
Docket No. 2021-324-WS
Weighted Cost of Capital
For the Test Year Ended December 31, 2019

Combined Operations

Description	Capital Structure		Per Application				After Accounting and Pro forma Adjustments				After Settlement Proposed Adjustment				
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	
Long-Term Debt	\$	19,669,838	46.81%	\$	10,665,771	4.57%	2.14%	\$	496,566	\$	11,275,708	4.57%	2.14%	\$	515,300
Members' Equity		22,351,064	53.19%		12,346,729	3.69%	1.66%		431,511		12,812,538	3.03%	2.68%		644,847
Totals	\$	42,020,922	100.00%	\$	23,212,500		4.00%	\$	928,077	\$	24,088,246		4.82%	\$	1,160,147

Water Operations

Description	Capital Structure		Per Application				After Accounting and Pro Forma Adjustments				After Settlement Proposed Adjustment					
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return		
Long-Term Debt	\$	19,669,838	46.81%	\$	8,640,139	4.57%	2.14%	\$	394,854	\$	9,089,498	4.57%	2.14%	\$	415,390	
Members' Equity		22,351,064	53.19%		9,817,753	4.16%	2.21%		408,895		10,328,357	3.91%	1.59%		311,220	
Totals	\$	42,020,922	100.00%	\$	18,457,892		4.35%	\$	803,749	\$	19,417,855		3.73%	\$	726,610	
															\$	1,184,058

SEWER Operations

Description	Capital Structure		Per Application				After Accounting and Pro forma Adjustments				After Settlement Proposed Adjustment								
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return					
Long-Term Debt	\$	19,669,838	46.81%	2,235,832	4.57%	2.14%	101,711	\$	2,188,210	4.57%	2.14%	\$	99,910	2,184,210	4.57%	2.14%	\$	99,910	
Members' Equity		22,351,064	53.19%	2,528,976	0.87%	0.47%	22,617		2,484,181	13.43%	7.14%		333,627	2,484,181	13.80%	7.39%		345,321	
Totals	\$	42,020,922	100.00%	\$	4,764,808		2.61%	\$	124,328	\$	4,670,391		9.28%	\$	433,537		9.57%	\$	445,231

Attachment B
KIAWAH ISLAND UTILITY, INC.
Settlement - Water Rate Design

Description (a)	Billing Determinants (b)	Current Rate (c)	Current Revenues (d)	Settlement Proposed Rates (e)	Settlement Proposed Revenues (f)	Increase (g)	Percent Increase (h)
Residential							
5/8" Meter	34,836	\$36.65	\$1,276,739	\$36.65	\$1,276,739	\$0	0.00%
3/4 Meter	5,784	\$54.98	\$318,004	\$54.98	\$318,004	\$0	0.00%
1" Meter	4,140	\$91.62	\$379,307	\$91.62	\$379,307	\$0	0.00%
1 1/2" Meter	180	\$183.25	\$32,985	\$183.25	\$32,985	\$0	0.00%
2" Meter	84	\$293.21	\$24,630	\$293.21	\$24,630	\$0	0.00%
3" Meter	-	\$641.40	\$0	\$641.40	\$0	\$0	--
4" Meter	-	\$1,840.73	\$0	\$1,840.73	\$0	\$0	--
Total Fixed Charges			\$2,031,665		\$2,031,665	\$0	0.00%
Consumption to 11,000 gals/mo.	370,176	\$4.83	\$1,787,950	\$5.36	\$1,984,143	\$196,193	10.97%
Consumption 11,000-50,000 gals/mo.	118,657	\$5.37	\$637,188	\$5.96	\$707,196	\$70,008	10.99%
Consumption over 50,000 gals/mo.	10,780	\$5.71	\$61,554	\$6.33	\$68,237	\$6,684	10.86%
Total Consumption	499,613		\$2,486,692		\$2,759,576	\$272,885	10.97%
Total Residential			\$4,518,357		\$4,791,242	\$272,885	6.04%
Target Revenues					\$4,789,324	\$270,967	
Difference					\$1,918	\$1,918	
Commercial							
5/8" Meter	528	\$36.65	\$19,351	\$36.65	\$19,351	-	0.00%
3/4 Meter	180	\$54.98	\$9,896	\$54.98	\$9,896	-	0.00%
1" Meter	168	\$91.62	\$15,392	\$91.62	\$15,392	-	0.00%
1 1/2" Meter	204	\$183.25	\$37,383	\$183.25	\$37,383	-	0.00%
2" Meter	192	\$293.21	\$56,296	\$293.21	\$56,296	-	0.00%
3" Meter	48	\$641.40	\$30,787	\$641.40	\$30,787	-	0.00%
4" Meter	24	\$1,840.73	\$44,178	\$1,840.73	\$44,178	-	0.00%
Total Fixed Charges			\$213,284		\$213,284	-	0.00%
Consumption	55,119	\$5.71	\$314,729	\$5.71	\$314,729	-	0.00%
Total Commercial			\$528,013		\$528,013	-	0.00%
Target Revenues					\$528,013	\$0	
Difference					\$0	\$0	
Hotels							
Per Room	3,060	\$14.72	\$45,043	\$14.72	\$45,043	\$0	0.00%
Consumption	8,817	\$5.71	\$50,345	\$5.71	\$50,345	\$0	0.00%
Total Hotels			\$95,388		\$95,388	\$0	0.00%
Target Revenues					\$95,388	\$0	
Difference					\$0	\$0	
Irrigation							
5/8" Meter	2,328	\$36.65	\$85,321	\$36.65	\$85,321	\$0	0.00%
3/4 Meter	1,044	\$54.98	\$57,399	\$54.98	\$57,399	\$0	0.00%
1" Meter	1,380	\$91.62	\$126,436	\$91.62	\$126,436	\$0	0.00%
1 1/2" Meter	312	\$183.25	\$57,174	\$183.25	\$57,174	\$0	0.00%
2" Meter	300	\$293.21	\$87,963	\$293.21	\$87,963	\$0	0.00%
3" Meter	48	\$641.40	\$30,787	\$641.40	\$30,787	\$0	0.00%
4" Meter	-	\$1,840.73	\$0	\$1,840.73	\$0	\$0	--
Total Fixed Charges			\$445,080		\$445,080	\$0	0.00%
Consumption to 50,000 gals/mo	157,541	\$5.37	\$845,995	\$6.30	\$992,508	\$146,513	17.32%
Consumption over 50,000 gals/mo	105,366	\$5.71	\$601,640	\$6.70	\$705,952	\$104,312	17.34%
Total Consumption			\$1,447,635		\$1,698,461	\$250,825	17.33%
Total Irrigation Customers			\$1,892,715		\$2,143,541	\$250,825	
Target Revenues					\$2,144,620	\$251,905	
Difference					(\$1,080)	(\$1,080)	

Attachment B
KIAWAH ISLAND UTILITY, INC.
Settlement - Water Rate Design

Description (a)	Billing Determinants (b)	Current Rate (c)	Current Revenues (d)	Settlement Proposed Rates (e)	Settlement Proposed Revenues (f)	Increase (g)	Percent Increase (h)
Golf - Potable							
Potable Water	48	\$871.45	\$41,830	\$871.45	\$41,830	\$0	0.00%
Consumption - Potable	25,489	\$5.71	\$145,542	\$6.55	\$166,953	\$21,411	14.71%
Total Golf - Potable			\$187,372		\$208,783	\$21,411	11.43%
Target Revenues					\$208,747	\$21,375	
Difference					\$36	\$36	
Golf - Well Water							
Deep Well Water	36	\$1,138.80	\$40,997	\$1,138.80	\$40,997	\$0	0.00%
Consumption - Well	79,415	\$0.30	\$23,825	\$0.42	\$33,354	\$9,530	40.00%
Total Golf - Well Water			\$64,821		\$74,351	\$9,530	14.70%
Target Revenues					\$74,681	\$9,860	
Difference					(\$330)	(\$330)	
Private Fire							
2" Line	252	8.65	\$2,180	\$9.17	\$2,311	\$131	6.01%
3" Line	84	15.83	\$1,330	\$16.78	\$1,410	\$80	6.00%
4" Line	180	27.43	\$4,937	\$29.08	\$5,234	\$297	6.02%
6" Line	24	54.87	\$1,317	\$58.16	\$1,396	\$79	6.00%
8" Line	12	96.11	\$1,153	\$101.88	\$1,223	\$69	6.00%
Total Fire Line			\$10,917		\$11,573	\$656	6.01%
Target Revenues					\$11,572	\$655	
Difference					\$1	\$1	
Total Water Sales							
TOTAL Water Sales			\$7,297,584		\$7,852,891	\$555,307	
Target Revenues					\$7,852,346	\$554,762	
Difference					\$545	\$545	
Fire Hydrant Service			\$39,551		\$39,551	\$0	
Late Payment & Return Check Charges			\$3,131		\$3,369	\$238	
Other Revenue			\$23,447		\$23,447	\$0	
TOTAL REVENUE			\$7,363,713		\$7,919,258	\$555,545	
TOTAL REVENUE TARGET					\$7,918,713	\$555,000	
DIFFERENCE					\$545	\$545	

ATTACHMENT B
KIAWAH ISLAND UTILITY, INC.
Settlement - Sewer Rate Design

Description	Billing Determinants	Current Rate	Current Revenues	Settlement Proposed Rates	Settlement Proposed Revenues	Increase	Percent Increase
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Residential							
5/8" Meter	34,620	\$28.00	\$969,360	\$28.00	\$969,360	\$0	0.00%
3/4 Meter	5,196	\$42.00	\$218,232	\$42.00	\$218,232	\$0	0.00%
1" Meter	3,876	\$69.99	\$271,281	\$69.99	\$271,281	\$0	0.00%
1 1/2" Meter	120	\$139.98	\$16,798	\$139.98	\$16,798	\$0	0.00%
2" Meter	84	\$223.98	\$18,814	\$223.98	\$18,814	\$0	0.00%
3" Meter	-	\$489.95	\$0	\$489.95	\$0	\$0	0.00%
4" Meter	-	\$1,514.79	\$0	\$1,514.79	\$0	\$0	0.00%
Consumption to 11,000 gals/mo.	351,605	\$0.74	\$260,188	\$0.74	\$260,188	\$0	0.00%
Consumption 11,000-50,000 gals/mo.	-	-	\$0	\$0.00	\$0	\$0	0.00%
Consumption over 50,000 gals/mo	-	-	\$0	\$0.00	\$0	\$0	0.00%
Total Residential Customers			\$1,754,673		\$1,754,673	\$0	0.00%
Target Revenues					\$1,754,673		
Difference					\$0		
Commercial							
5/8" Meter	276	\$28.00	\$7,728	\$28.00	\$7,728	\$0	0.00%
3/4 Meter	120	\$42.00	\$5,040	\$42.00	\$5,040	\$0	0.00%
1" Meter	84	\$69.99	\$5,879	\$69.99	\$5,879	\$0	0.00%
1 1/2" Meter	156	\$139.98	\$21,837	\$139.98	\$21,837	\$0	0.00%
2" Meter	180	\$223.98	\$40,316	\$223.98	\$40,316	\$0	0.00%
3" Meter	48	\$489.95	\$23,518	\$489.95	\$23,518	\$0	0.00%
4" Meter	24	\$1,514.79	\$36,355	\$1,514.79	\$36,355	\$0	0.00%
Consumption	28,043	\$2.86	\$80,203	\$2.86	\$80,203	\$0	0.00%
Total Commercial Customers			\$220,876		\$220,876	\$0	0.00%
Target Revenues					\$220,876		
Difference					\$0		
Hotels							
per Room	3,060	\$11.19	\$34,241	\$11.19	\$34,241	\$0	0.00%
Consumption	8,817	\$2.86	\$25,217	\$2.86	\$25,217	\$0	0.00%
Total Hotels			\$59,458		\$59,458	\$0	0.00%
Target Revenues					\$59,458		
Difference					\$0		
Effluent							
Effluent Water	36	\$4,648.72	\$167,354	\$4,648.72	\$167,354	\$0	0.00%
Consumption	211,679	\$0.20	\$42,336	\$0.20	\$42,336	\$0	0.00%
Total Golf - Potable			\$209,690		\$209,690	\$0	0.00%
Target Revenues					\$209,690		
Difference					\$0		
Total Rate Revenues							
TOTAL RATE REVENUES			\$2,244,697		\$2,244,697	\$0	0.00%
TOTAL REVENUE TARGET					\$2,244,697		
DIFFERENCE					\$0		
Other Revenue			\$8,906		\$8,906		
TOTAL REVENUE			\$2,253,603		\$2,253,603	\$0	
TOTAL TARGET REVENUE					\$2,253,603		
DIFFERENCE					\$0		

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Combined Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>	(5) <u>After</u> <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	9,477,169	140,147 (1)	9,617,316	615,000 (21)	10,232,316
<u>Total Operating Revenues</u>	<u>9,477,169</u>	<u>140,147</u>	<u>9,617,316</u>	<u>615,000</u>	<u>10,232,316</u>
<u>Operating Expenses:</u>					
Operating Expenses	6,888,756	(560,919) (2)	6,327,837	0	6,327,837
Depreciation and Amortization Expenses	851,478	203,607 (3)	1,055,085	0	1,055,085
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	73,383 (5)	73,383	0	73,383
Utility Regulatory Assessment Fees	0	68,166 (6)	68,166	4,359 (22)	72,525
Property Taxes	487,467	81,655 (7)	569,122	0	569,122
Payroll Taxes	69,389	7,907 (8)	77,296	0	77,296
Other Taxes and Licenses	162,256	(51,845) (9)	110,411	1,845 (23)	112,256
Federal Income Taxes	(490,598)	650,117 (10)	159,519	121,455 (24)	280,974
State Income Taxes	(102,585)	142,565 (11)	39,980	30,440 (25)	70,420
Deferred Federal Income Taxes	500,510	(500,510) (12)	0	0	0
Deferred State Income Taxes	94,322	(94,322) (13)	0	0	0
<u>Total Operating Expenses</u>	<u>8,504,251</u>	<u>(2,490)</u>	<u>8,501,761</u>	<u>158,099</u>	<u>8,659,860</u>
<u>Net Utility Operating Income (Loss)</u>	<u>972,918</u>	<u>142,637</u>	<u>1,115,555</u>	<u>456,901</u>	<u>1,572,456</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(44,841)	44,841 (14)	0	0	0
Add: Customer Growth	0	0	0	21,743 (26)	21,743
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	35,168 (27)	35,168
<u>Net Income (Loss) for Return</u>	<u>928,077</u>	<u>187,478</u>	<u>1,115,555</u>	<u>513,812</u>	<u>1,629,367</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	55,097,995	1,839,517 (15)	56,937,512	0	56,937,512
Accumulated Depreciation	(22,922,989)	(1,391,186) (16)	(24,314,175)	0	(24,314,175)
Net Plant in Service	32,175,006	448,331	32,623,337	0	32,623,337
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	8,697,105	385,259 (17)	9,082,364	0	9,082,364
Accumulated Deferred Income Taxes	(992,271)	119,705 (18)	(872,566)	0	(872,566)
Excess Deferred Income Taxes (EDIT)	(672,744)	0	(672,744)	0	(672,744)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	95,590	0	95,590	0	95,590
Cash Working Capital	861,095	(70,115) (19)	790,980	0	790,980
<u>Total Rate Base</u>	<u>23,212,500</u>	<u>883,180</u>	<u>24,095,680</u>	<u>0</u>	<u>24,095,680</u>
<u>Return on Rate Base</u>	<u>4.00%</u>		<u>4.63%</u>		<u>6.76%</u>
<u>Operating Margin</u>	<u>0.31%</u>		<u>6.24%</u>		<u>10.89%</u>
<u>Interest Expense</u>	<u>898,913</u>	<u>(383,454) (20)</u>	<u>515,459</u>	<u>0</u>	<u>515,459</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Water Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>	(5) <u>After</u> <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,308,931	54,782 (1)	7,363,713	615,000 (21)	7,978,713
<u>Total Operating Revenues</u>	<u>7,308,931</u>	<u>54,782</u>	<u>7,363,713</u>	<u>615,000</u>	<u>7,978,713</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,396,456	(240,219) (2)	5,156,237	0	5,156,237
Depreciation and Amortization Expenses	579,841	161,337 (3)	741,178	0	741,178
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	21,522 (5)	21,522	0	21,522
Utility Regulatory Assessment Fees	0	52,193 (6)	52,193	4,359 (22)	56,552
Property Taxes	287,924	167,796 (7)	455,720	0	455,720
Payroll Taxes	40,985	4,671 (8)	45,656	0	45,656
Other Taxes and Licenses	95,837	(20,537) (9)	75,300	1,845 (23)	77,145
Federal Income Taxes	(4,589,162)	4,664,864 (10)	75,702	121,455 (24)	197,157
State Income Taxes	(959,604)	978,577 (11)	18,973	30,440 (25)	49,413
Deferred Federal Income Taxes	4,681,887	(4,681,887) (12)	0	0	0
Deferred State Income Taxes	882,310	(882,310) (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,459,730</u>	<u>203,713</u>	<u>6,663,443</u>	<u>158,099</u>	<u>6,821,542</u>
<u>Net Utility Operating Income (Loss)</u>	<u>849,201</u>	<u>(148,931)</u>	<u>700,270</u>	<u>456,901</u>	<u>1,157,171</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(45,452)	45,452 (14)	0	0	0
Add: Customer Growth	0	0	0	17,582 (26)	17,582
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	27,818 (27)	27,818
<u>Net Income (Loss) for Return</u>	<u>803,749</u>	<u>(103,479)</u>	<u>700,270</u>	<u>502,301</u>	<u>1,202,571</u>
<u>Original Cost Rate Base: Water</u>					
Gross Plant in Service	33,250,642	1,544,011 (15)	34,794,653	0	34,794,653
Accumulated Depreciation	(11,555,949)	(774,322) (16)	(12,330,271)	0	(12,330,271)
Net Plant in Service	21,694,693	769,689	22,464,382	0	22,464,382
Contributions in Aid of Construction (CIAC)	(5,860,751)	0	(5,860,751)	0	(5,860,751)
Accumulated Amortization of CIAC	2,757,281	130,008 (17)	2,887,289	0	2,887,289
Accumulated Deferred Income Taxes	(784,865)	94,684 (18)	(690,181)	0	(690,181)
Excess Deferred Income Taxes (EDIT)	(532,126)	0	(532,126)	0	(532,126)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	92,362	0	92,362	0	92,362
Cash Working Capital	674,557	(30,027) (19)	644,530	0	644,530
<u>Total Rate Base</u>	<u>18,457,892</u>	<u>964,354</u>	<u>19,422,246</u>	<u>0</u>	<u>19,422,246</u>
<u>Return on Rate Base</u>	<u>4.35%</u>		<u>3.61%</u>		<u>6.19%</u>
<u>Operating Margin</u>	<u>3.73%</u>		<u>3.87%</u>		<u>9.86%</u>
<u>Interest Expense</u>	<u>530,947</u>	<u>(115,463) (20)</u>	<u>415,484</u>	<u>0</u>	<u>415,484</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Sewer Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> \$	(2) <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(4) <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> \$	(5) <u>After</u> <u>Settlement</u> <u>Proposed</u> <u>Adjustment</u> \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	2,168,238	85,365 (1)	2,253,603	0 (21)	2,253,603
<u>Total Operating Revenues</u>	<u>2,168,238</u>	<u>85,365</u>	<u>2,253,603</u>	<u>0</u>	<u>2,253,603</u>
<u>Operating Expenses:</u>					
Operating Expenses	1,492,300	(320,700) (2)	1,171,600	0	1,171,600
Depreciation and Amortization Expenses	271,637	42,270 (3)	313,907	0	313,907
Amortization of Utility Plant Acquisition Adjustments	0	0 (4)	0	0	0
Amortization Expense - Other	0	51,861 (5)	51,861	0	51,861
Utility Regulatory Assessment Fees	0	15,973 (6)	15,973	0 (22)	15,973
Property Taxes	199,543	(86,141) (7)	113,402	0	113,402
Payroll Taxes	28,404	3,236 (8)	31,640	0	31,640
Other Taxes and Licenses	66,419	(31,308) (9)	35,111	0 (23)	35,111
Federal Income Taxes	4,098,564	(4,014,747) (10)	83,817	0 (24)	83,817
State Income Taxes	857,019	(836,012) (11)	21,007	0 (25)	21,007
Deferred Federal Income Taxes	(4,181,377)	4,181,377 (12)	0	0	0
Deferred State Income Taxes	(787,988)	787,988 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>2,044,521</u>	<u>(206,203)</u>	<u>1,838,318</u>	<u>0</u>	<u>1,838,318</u>
<u>Net Utility Operating Income (Loss)</u>	<u>123,717</u>	<u>291,568</u>	<u>415,285</u>	<u>0</u>	<u>415,285</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	611	(611) (14)	0	0	0
Add: Customer Growth	0	0	0	4,161 (26)	4,161
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	7,350 (27)	7,350
<u>Net Income (Loss) for Return</u>	<u>124,328</u>	<u>290,957</u>	<u>415,285</u>	<u>11,511</u>	<u>426,796</u>
<u>Original Cost Rate Base: Sewer</u>					
Gross Plant in Service	21,847,353	295,506 (15)	22,142,859	0	22,142,859
Accumulated Depreciation	(11,367,040)	(616,864) (16)	(11,983,904)	0	(11,983,904)
Net Plant in Service	10,480,313	(321,358)	10,158,955	0	10,158,955
Contributions in Aid of Construction (CIAC)	(11,507,271)	0	(11,507,271)	0	(11,507,271)
Accumulated Amortization of CIAC	5,939,824	255,251 (17)	6,195,075	0	6,195,075
Accumulated Deferred Income Taxes	(207,406)	25,021 (18)	(182,385)	0	(182,385)
Excess Deferred Income Taxes (EDIT)	(140,618)	0	(140,618)	0	(140,618)
Materials and Supplies	0	0	0	0	0
Prepayments	3,228	0	3,228	0	3,228
Cash Working Capital	186,538	(40,088) (19)	146,450	0	146,450
<u>Total Rate Base</u>	<u>4,754,608</u>	<u>(81,174)</u>	<u>4,673,434</u>	<u>0</u>	<u>4,673,434</u>
<u>Return on Rate Base</u>	<u>2.61%</u>		<u>8.89%</u>		<u>9.13%</u>
<u>Operating Margin</u>	<u>-11.24%</u>		<u>13.99%</u>		<u>14.50%</u>
<u>Interest Expense</u>	<u>367,966</u>	<u>(267,991) (20)</u>	<u>99,975</u>	<u>0</u>	<u>99,975</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
		Description			
<u>Accounting and Pro forma Adjustments</u>					
(1)		<u>Utility Operating Revenues</u>			
(1)	(A)	To adjust revenue based the number of customers as of September 2021 at current tariffed rates.			
		Per Settlement	259,647	130,532	129,115
		Per KIU	259,647	130,532	129,115
(2)	(B)	To remove tap-in revenue.			
		Per Settlement	(119,500)	(75,750)	(43,750)
		Per KIU	(119,500)	(75,750)	(43,750)
	(C)	To normalize fire hydrant rental revenues.			
		Per Settlement	0	0	0
		Per KIU	0	0	0
(1)		<u>Total Utility Operating Revenues Adjustment</u>			
		Total Per Settlement	140,147	54,782	85,365
		Per KIU	140,147	54,782	85,365
(2)		<u>Operating Expenses</u>			
(3)	(A)	To annualize payroll related expenses to reflect known and measurable increases in effect for 2022 based on payroll information. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	121,384	71,702	49,682
		Per KIU	94,492	55,816	38,676
(4)	(B)	To increase purchased water costs to reflect increased costs charged by St. John's Water Company.			
		Per Settlement	238,229	238,229	0
		Per KIU	238,229	238,229	0

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Description				
(5)	(C) To increase purchased power for Santee Cooper settlement.				
	Per Settlement		27,682	16,352	11,330
	Per KIU		27,682	16,352	11,330
(6)	(D) To remove tap-in expenses.				
	Per Settlement		(119,500)	(75,750)	(43,750)
	Per KIU		(119,500)	(75,750)	(43,750)
(7)	(E) To adjust accounting costs for known audit costs. Allocated between water and sewer - 59.07% and 40.93%.				
	Per Settlement		339	200	139
	Per KIU		339	200	139
(8)	(F) To remove nonrecurring legal fees. Allocated between water and sewer - 59.07% and 40.93%.				
	Per Settlement		(313,423)	(185,139)	(128,284)
	Per KIU		(313,423)	(185,139)	(128,284)
(9)	(G) To adjust for SWWC management fees to reflect the 3-factor overhead allocation. Allocated between water and sewer - 59.07% and 40.93%.				
	Per Settlement		(517,522)	(305,700)	(211,822)
	Per KIU		(436,606)	(257,903)	(178,703)
(10)	(H) To amortize rate case expenses over two years. Allocated between water and sewer - 59.07% and 40.93%.				
	Per Settlement		11,952	7,060	4,892
	Per KIU		(47,517)	(28,062)	(19,455)
(11)	(I) To remove nonallowable expenses.				
	Per Settlement		(10,060)	(7,173)	(2,887)
	Per KIU		(3,006)	(3,006)	0
(2)	<u>Total Operating Expenses Adjustment</u>				
	Total Per Settlement		(560,919)	(240,219)	(320,700)
	Total Per KIU		(559,310)	(239,263)	(320,047)

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #			\$	\$	\$
		Description	Combined Operations	Water Operations	Sewer Operations
(12)	(3)	<u>Depreciation & Amortization Expenses</u>			
	(A)	To adjust depreciation and amortization for 2021 calculated depreciation, pro forma assets placed in service in 2021, and allocated corporate overhead depreciation.			
		Per Settlement	143,607	101,337	42,270
		Per KIU	236,788	158,130	78,658
	(B)	To adjust amortization expense for secondary water line incremental pipeline costs regulatory asset of \$1,800,000 over 30 years.			
		Per Settlement	60,000	60,000	0
		Per KIU	0	0	0
(3)		<u>Total Depreciation & Amortization Expense Adjustment</u>			
		Total Per Settlement	203,607	161,337	42,270
		Total Per KIU	236,788	158,130	78,658
(13)	(4)	<u>Amortization of Utility Plant Acquisition - Water Rights</u>			
		To adjust for fully amortized impact agreement.			
		Per Settlement	(22,294)	(22,294)	0
		Per KIU	(22,294)	(22,294)	0
(14)	(5)	<u>Amortization Expense - Other</u>			
		To amortize known and measurable maintenance costs incurred for sludge removal, tank painting, and Covid-19 personal protective equipment.			
		Per Settlement	73,383	21,522	51,861
		Per KIU	73,383	21,522	51,861
(6)		<u>Utility Regulatory Assessment Fees</u>			
(15)	(A)	To reclass test year gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	54,372	32,118	22,254
		Per KIU	51,748	30,568	21,180

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement			\$	\$	\$
Adj. #	Adj. #	Description	Combined Operations	Water Operations	Sewer Operations
(16)	(B)	To adjust gross receipts tax after the accounting and pro forma adjustments using a factor of .708793%.			
		Per Settlement	13,794	20,075	(6,281)
		Per KIU	(8)	(5)	(3)
(6)		<u>Total Utility Regulatory Assessment Fees Adjustment</u>			
		Total Per Settlement	68,166	52,193	15,973
		Total Per KIU	51,740	30,563	21,177
(17)	(7)	<u>Property Taxes</u>			
		To adjust property taxes for expected increase.			
		Per Settlement	81,655	167,796	(86,141)
		Per KIU	146,926	86,789	60,137
(18)	(8)	<u>Payroll Taxes</u>			
		To increase payroll tax for payroll increase. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	7,907	4,671	3,236
		Per KIU	5,559	3,284	2,275
(9)		<u>Other Taxes and Licenses</u>			
(19)	(A)	To remove gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
		Per Settlement	(54,372)	(32,118)	(22,254)
		Per KIU	(51,748)	(30,568)	(21,180)
(20)	(B)	To adjust corporate license fee for proforma fair market value (.001) and revenue changes (.003).			
		Per Settlement	2,527	11,581	(9,054)
		Per KIU	4,649	2,746	1,903
(9)		<u>Total Other Taxes and Licenses Adjustment</u>			
		Total Per Settlement	(51,845)	(20,537)	(31,308)
		Total Per KIU	(47,099)	(27,822)	(19,277)

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #		Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(21)	(10)	<u>Federal Income Taxes</u>			
		To adjust federal income taxes on pro forma income at 21%.			
		Per Settlement	650,117	4,664,864	(4,014,747)
		Per KIU	621,309	4,702,794	(4,081,485)
(21)	(11)	<u>State Income Taxes</u>			
		To adjust state income taxes on pro forma income at 5%.			
		Per Settlement	142,565	978,577	(836,012)
		Per KIU	135,344	988,083	(852,739)
(22)	(12)	<u>Deferred Federal Income Taxes</u>			
		To remove deferred federal income tax expense.			
		Per Settlement	(500,510)	(4,681,887)	4,181,377
		Per KIU	(500,510)	(4,681,887)	4,181,377
(22)	(13)	<u>Deferred State Income Taxes</u>			
		To remove deferred state income tax expense.			
		Per Settlement	(94,322)	(882,310)	787,988
		Per KIU	(94,322)	(882,310)	787,988
(23)	(14)	<u>Other Operating Income</u>			
		To reverse gains / losses on disposition of property.			
		Per Settlement	44,841	45,452	(611)
		Total Per KIU	44,841	45,452	(611)
(15)		<u>Gross Plant In Service</u>			
		To adjust gross plant in service as of 12/31/21.			
		Per Settlement	1,839,517	1,544,011	295,506
		Per KIU	4,200,881	3,828,264	372,617

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(16)	<u>Accumulated Depreciation</u>			
	To adjust accumulated depreciation as of 12/31/21.			
	Per Settlement	(1,391,186)	(774,322)	(616,864)
	Per KIU	(1,023,987)	(660,696)	(363,291)
(17)	<u>Accumulated Amortization of CIAC</u>			
	To adjust accumulated amortization of contributions in aid of construction as of 12/31/21.			
	Per Settlement	385,259	130,008	255,251
	Per KIU	385,259	130,008	255,251
(18)	<u>Accumulated Deferred Income Taxes</u>			
	To adjust accumulated deferred income taxes.			
	Per Settlement	119,705	94,684	25,021
	Per KIU	119,705	94,684	25,021
(19)	<u>Cash Working Capital</u>			
	To adjust cash working capital after accounting and pro forma adjustments.			
	Per Settlement	(70,115)	(30,027)	(40,088)
	Per KIU	(69,914)	(29,908)	(40,006)
(24) (20)	<u>Interest Expense</u>			
	To synchronize interest expense with the portion of rate base financed by debt.			
	Per Settlement	(383,454)	(115,463)	(267,991)
	Per KIU	(325,084)	(192,027)	(133,057)

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement			\$	\$	\$
Adj. #	Adj. #	Description	Combined Operations	Water Operations	Sewer Operations
<u>Settlement Proposed Adjustment</u>					
(25)	(21)	<u>Utility Operating Revenues</u>			
		To adjust revenues to reflect the settlemet rates.			
		Per Settlement	615,000	615,000	0
		Per KIU	1,355,996	1,101,606	254,390
(26)	(22)	<u>Utility Regulatory Assessment Fees</u>			
		To increase gross receipts after settlement adjustment using a factor of .708793%.			
		Per Settlement	4,359	4,359	0
		Per KIU	9,611	7,808	1,803
(27)	(23)	<u>Other Taxes and Licenses</u>			
		To increase the corporate license fee after settlement adjustment.			
		Per Settlement	1,845	1,845	0
		Per KIU	4,068	3,305	763
(28)	(24)	<u>Federal Income Taxes</u>			
		To adjust federal income taxes after settlement adjustment using a 21% tax rate.			
		Per Settlement	121,455	121,455	0
		Per KIU	267,792	217,553	50,239
(28)	(25)	<u>State Income Taxes</u>			
		To adjust state income taxes after settlement adjustment using a 5% tax rate.			
		Per Settlement	30,440	30,440	0
		Per KIU	67,116	54,525	12,591

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU Settlement <u>Adj. #</u> <u>Adj. #</u>			\$	\$	\$
		Description	Combined Operations	Water Operations	Sewer Operations
(29)	(26)	<u>Customer Growth</u>			
		To adjust for customer growth based on the total operating income after settlement adjustment. The customer growth factors are 1.5194% for water and 1.0019% for sewer.			
		Per Settlement	21,743	17,582	4,161
		Per KIU	28,971	24,080	4,891
(30)	(27)	<u>Amortization of Excess Accumulated Deferred Income Tax</u>			
		To adjust for the annual amortization of excess accumulated deferred income taxes due to the Tax Cuts and Jobs Act.			
		Per Settlement	35,168	27,818	7,350
		Per KIU	35,168	27,817	7,351

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2020

	Combined Operations \$	Asset Class	Water Operations \$	Asset Class	Sewer Operations \$
<u>Plant in Service</u>					
Land and Land Rights	5,268,252	303.2	3,468,252	353.6	1,800,000
Structures & Improvements	16,113,909	304.2	12,717,812	354.4	3,396,097
Wells	171,381	307.2	171,381	N/A	0
Water Treatment	49,679	N/A	0	355.4	49,679
Collections Sewers - Gravity	13,649,037	N/A	0	360.2	13,649,037
Collections Sewers - Force	2,141,766	N/A	0	361.2	2,141,766
Pumping Equipment	1,449,612	311.2	1,117,843	371.3	331,769
Aquifer Storage & Recovery (ASR) Equipment	1,340,815	330.4	1,340,815	N/A	0
Mains	10,459,792	331.4	10,459,792	N/A	0
Meter & Meter Installation	1,718,873	334.4	1,718,873	N/A	0
Fire Hydrants	284,840	335.4	284,840	N/A	0
Other Plant & Miscellaneous Equipment	1,042,889	339.4	917,292	389.4	125,597
Office Furniture & Equipment	297,538	340.5	130,305	390.7	167,233
Transportation Equipment	595,602	341.5	294,151	391.7	301,451
Tools, Shop, and Garage	20,994	343.5	10,497	393.7	10,497
Equipment - Meter	1,050	N/A	0	394.7	1,050
Communication Equipment	2,278	346.5	1,139	396.7	1,139
Miscellaneous Equipment	9,596	347.5	4,798	397.7	4,798
Impact Fees (Water Rights)	1,921,989	302.1	1,921,989	N/A	0
Gross Plant in Service - KIU	56,539,892		34,559,779		21,980,113
SWWC - Plant In Service Allocation	397,620	N/A	234,874	N/A	162,746
Total Gross Plant in Service	56,937,512		34,794,653		22,142,859
Contributions in Aid of Construction (CIAC)	(17,368,022)	331.4 C	(5,860,751)	360.2 C	(11,507,271)
<u>Depreciation Expense</u>					
Land and Land Rights	0	303.2	0	353.6	0
Structures & Improvements	357,293	304.2	268,399	354.4	88,894
Wells	9,272	307.2	9,272	N/A	0
Water Treatment	1,771	N/A	0	355.4	1,771
Collections Sewers - Gravity	307,981	N/A	0	360.2	307,981
Collections Sewers - Force	52,729	N/A	0	361.2	52,729
Pumping Equipment	73,526	311.2	46,172	371.3	27,354
Aquifer Storage & Recovery (ASR) Equipment	31,795	330.4	31,795	N/A	0
Mains	242,568	331.4	242,568	N/A	0
Meter & Meter Installation	58,953	334.4	58,953	N/A	0
Fire Hydrants	7,301	335.4	7,301	N/A	0
Other Plant & Miscellaneous Equipment	62,724	339.4	55,196	389.4	7,528
Office Furniture & Equipment	17,508	340.5	4,758	390.7	12,750
Transportation Equipment	61,118	341.5	30,559	391.7	30,559
Tools, Shop, and Garage	1,400	343.5	700	393.7	700
Equipment - Meter	210	N/A	0	394.7	210
Communication Equipment	456	346.5	228	396.7	228
Miscellaneous Equipment	960	347.5	480	397.7	480
Total Depreciation Expense - KIU	1,287,565		756,381		531,184
SWWC - Depreciation Expense Allocation	92,779		54,805		37,974
Total Depreciation Expense	1,380,344		811,186		569,158
CIAC Amortization Expense	(385,259)	331.4 C	(130,008)	360.2 C	(255,251)
Depreciation & Amortization Expense	995,085		681,178		313,907
Depreciation & Amortization Expense - Per Books	851,478		579,841		271,637
Depreciation & Amortization Expense Adjustment #3A	143,607		101,337		42,270

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2020

	<u>Combined Operations</u> \$	<u>Asset Class</u>	<u>Water Operations</u> \$	<u>Asset Class</u>	<u>Sewer Operations</u> \$
<u>Accumulated Depreciation</u>					
Land and Land Rights	0	303.2	0	353.6	0
Structures & Improvements	(5,496,994)	304.2	(3,262,294)	354.4	(2,234,700)
Wells	(36,553)	307.2	(36,553)	N/A	-
Water Treatment	(43,038)	N/A	0	355.4	(43,038)
Collections Sewers - Gravity	(7,653,315)	N/A	0	360.2	(7,653,315)
Collections Sewers - Force	(1,458,240)	N/A	0	361.2	(1,458,240)
Pumping Equipment	(903,918)	311.2	(789,899)	371.3	(114,019)
Aquifer Storage & Recovery (ASR) Equipment	(520,250)	330.4	(520,250)	N/A	0
Mains	(4,686,985)	331.4	(4,686,985)	N/A	0
Meter & Meter Installation	(62,573)	334.4	(62,573)	N/A	0
Fire Hydrants	(194,139)	335.4	(194,139)	N/A	0
Other Plant & Miscellaneous Equipment	(691,661)	339.4	(631,251)	389.4	(60,410)
Office Furniture & Equipment	(253,600)	340.5	(118,326)	390.7	(135,274)
Transportation Equipment	(381,059)	341.5	(186,880)	391.7	(194,179)
Tools, Shop, and Garage	(2,256)	343.5	(1,128)	393.7	(1,128)
Equipment - Meter	(210)	N/A	-	394.7	(210)
Communication Equipment	(798)	346.5	(399)	396.7	(399)
Miscellaneous Equipment	(1,304)	347.5	(652)	397.7	(652)
Impact Fees (Water Rights)	(1,711,451)	302.1	(1,711,451)	N/A	0
Total Accumulated Depreciation - KIU	(24,098,344)		(12,202,780)		(11,895,564)
 SWWC - Accumulated Depreciation Allocation	 (215,831)	 N/A	 (127,491)	 N/A	 (88,340)
Accumulated Depreciation	(24,314,175)		(12,330,271)		(11,983,904)
 Accumulated Amortization of CIAC	 9,082,364	 331.4 C	 2,887,289	 360.2 C	 6,195,075

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2020

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	9,617,316	7,363,713	2,253,603
Operating Expenses	8,302,262	6,568,768	1,733,494
Net Operating Income Before Taxes	1,315,054	794,945	520,109
Less: Annualized Interest Expense	515,459	415,484	99,975
Taxable Income - State	799,595	379,461	420,134
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	39,980	18,973	21,007
Less: State Income Taxes Per Books	(102,585)	(959,604)	857,019
State Income Tax Adjustment - Accounting and Pro Forma Adjustment #11	142,565	978,577	(836,012)
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	759,615	360,488	399,127
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	159,519	75,702	83,817
Less: Federal Income Taxes Per Books	(490,598)	(4,589,162)	4,098,564
Federal Income Tax Adjustment - Accounting and Pro Forma Adjustment #10	650,117	4,664,864	(4,014,747)
After Settlement Proposed Adjustment			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	10,232,316	7,978,713	2,253,603
Operating Expenses	8,308,466	6,574,972	1,733,494
Net Operating Income Before Taxes	1,923,850	1,403,741	520,109
Less: Annualized Interest Expense	515,459	415,484	99,975
Taxable Income - State	1,408,391	988,257	420,134
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	70,420	49,413	21,007
Less: State Income Taxes After Accounting & Pro Forma Adjustments	39,980	18,973	21,007
State Income Tax Adjustment - After Proposed Adjustment #25	30,440	30,440	0
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	1,337,971	938,844	399,127
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	280,974	197,157	83,817
Less: Federal Income Taxes After Accounting & Pro Forma Adjustments	159,519	75,702	83,817
Federal Income Tax Adjustment - After Proposed Adjustment #24	121,455	121,455	0

Kiawah Island Utility, Inc.
Cash Working Capital Allowance
For the Test Year Ended December 31, 2020

After Accounting & Pro Forma Adjustments

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Operating Expenses	6,327,837	5,156,237	1,171,600
Less: Bad Debt Expense	0	0	0
Less: Purchased Water	<u>0</u>	<u>0</u>	<u>0</u>
Net Operating Expenses	6,327,837	5,156,237	1,171,600
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	790,980	644,530	146,450
Less: Cash Working Capital - Application Per Books	<u>861,095</u>	<u>674,557</u>	<u>186,538</u>
Cash Working Capital Adjustment #19	<u>(70,115)</u>	<u>(30,027)</u>	<u>(40,088)</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Weighted Cost of Capital
For the Test Year Ended December 31, 2020

Combined Operations

Description	Capital Structure	Ratio	Per Application			After Accounting and Pro forma Adjustments				After Settlement Proposed Adjustment				
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 10,865,771	4.57%	2.14%	\$ 496,566	\$ 11,279,188	4.57%	2.14%	\$ 515,459	\$ 11,279,188	4.57%	2.14%	\$ 515,459
Members' Equity	22,351,064	53.19%	12,346,729	3.49%	1.86%	431,511	12,816,492	4.68%	2.49%	600,096	12,816,492	8.69%	4.62%	1,113,908
Totals	\$ 42,020,922	100.00%	\$ 23,212,500	4.00%		\$ 928,077	\$ 24,095,680		4.63%	\$ 1,115,555	\$ 24,095,680		6.76%	\$ 1,629,367

Water Operations

Description	Capital Structure	Ratio	Per Application				After Accounting and Pro forma Adjustments				After Settlement Proposed Adjustment			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 8,640,139	4.57%	2.14%	\$ 394,854	\$ 9,091,553	4.57%	2.14%	\$ 415,484	\$ 9,091,553	4.57%	2.14%	\$ 415,484
Members' Equity	22,351,064	53.19%	9,817,753	4.16%	2.21%	408,895	10,330,693	2.76%	1.46%	284,786	10,330,693	7.62%	4.05%	787,087
Totals	\$ 42,020,922	100.00%	\$ 18,457,892		4.35%	\$ 803,749	\$ 19,422,246		3.60%	\$ 700,270	\$ 19,422,246		6.19%	\$ 1,202,571

Sewer Operations

Description	Capital Structure	Ratio	Per Application			Income For Return	After Accounting and Pro forma Adjustments				Income For Return	After Settlement Proposed Adjustment				Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return		Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base		Embedded Cost/Return	Overall Cost/Return			
Long-Term Debt	\$ 19,669,858	46.81%	\$ 2,225,632	4.57%	2.14%	\$ 101,711	\$ 2,187,634	4.57%	2.14%	\$ 99,975	\$ 2,187,634	4.57%	2.14%	\$ 99,975		
Members' Equity	22,351,064	53.19%	2,528,976	0.89%	0.47%	22,617	2,485,800	12.68%	6.74%	315,310	2,485,800	13.15%	6.99%	326,821		
Totals	\$ 42,020,922	100.00%	\$ 4,754,608		2.61%	\$ 124,328	\$ 4,673,434		8.88%	\$ 415,285	\$ 4,673,434		9.13%	\$ 426,796		

PROPOSED ORDER EXHIBIT 3

KIAWAH ISLAND UTILITY, INC.
Final - Water Rate Design

Description (a)	Billing Determinants (b)	Current Rate (c)	Current Revenues (d)	Settlement Proposed Rates (e)	Settlement Proposed Revenues (f)	Increase (g)	Percent Increase (h)
Residential							
5/8" Meter	34,836	\$36.65	\$1,276,739	\$36.65	\$1,276,739	\$0	0.00%
3/4 Meter	5,784	\$54.98	\$318,004	\$54.98	\$318,004	\$0	0.00%
1" Meter	4,140	\$91.62	\$379,307	\$91.62	\$379,307	\$0	0.00%
1 1/2" Meter	180	\$183.25	\$32,985	\$183.25	\$32,985	\$0	0.00%
2" Meter	84	\$293.21	\$24,630	\$293.21	\$24,630	\$0	0.00%
3" Meter	-	\$641.40	\$0	\$641.40	\$0	\$0	--
4" Meter	-	\$1,840.73	\$0	\$1,840.73	\$0	\$0	--
Total Fixed Charges			\$2,031,665		\$2,031,665	\$0	0.00%
Consumption to 11,000 gals/mo.	370,176	\$4.83	\$1,787,950	\$5.41	\$2,002,652	\$214,702	12.01%
Consumption 11,000-50,000 gals/mo.	118,657	\$5.37	\$637,188	\$6.02	\$714,315	\$77,127	12.10%
Consumption over 50,000 gals/mo.	10,780	\$5.71	\$61,554	\$6.40	\$68,992	\$7,438	12.08%
Total Consumption	499,613		\$2,486,692		\$2,785,959	\$299,267	12.03%
Total Residential			\$4,518,357		\$4,817,624	\$299,267	6.62%
Target Revenues					\$4,818,618	\$300,261	
Difference					(\$994)	(\$994)	
Commercial							
5/8" Meter	528	\$36.65	\$19,351	\$36.65	\$19,351	-	0.00%
3/4 Meter	180	\$54.98	\$9,896	\$54.98	\$9,896	-	0.00%
1" Meter	168	\$91.62	\$15,392	\$91.62	\$15,392	-	0.00%
1 1/2" Meter	204	\$183.25	\$37,383	\$183.25	\$37,383	-	0.00%
2" Meter	192	\$293.21	\$56,296	\$293.21	\$56,296	-	0.00%
3" Meter	48	\$641.40	\$30,787	\$641.40	\$30,787	-	0.00%
4" Meter	24	\$1,840.73	\$44,178	\$1,840.73	\$44,178	-	0.00%
Total Fixed Charges			\$213,284		\$213,284	-	0.00%
Consumption	55,119	\$5.71	\$314,729	\$5.71	\$314,729	-	0.00%
Total Commercial			\$528,013		\$528,013	-	0.00%
Target Revenues					\$528,013	\$0	
Difference					\$0	\$0	
Hotels							
Per Room	3,060	\$14.72	\$45,043	\$14.72	\$45,043	\$0	0.00%
Consumption	8,817	\$5.71	\$50,345	\$5.71	\$50,345	\$0	0.00%
Total Hotels			\$95,388		\$95,388	\$0	0.00%
Target Revenues					\$95,388	\$0	
Difference					\$0	\$0	
Irrigation							
5/8" Meter	2,328	\$36.65	\$85,321	\$36.65	\$85,321	\$0	0.00%
3/4 Meter	1,044	\$54.98	\$57,399	\$54.98	\$57,399	\$0	0.00%
1" Meter	1,380	\$91.62	\$126,436	\$91.62	\$126,436	\$0	0.00%
1 1/2" Meter	312	\$183.25	\$57,174	\$183.25	\$57,174	\$0	0.00%
2" Meter	300	\$293.21	\$87,963	\$293.21	\$87,963	\$0	0.00%
3" Meter	48	\$641.40	\$30,787	\$641.40	\$30,787	\$0	0.00%
4" Meter	-	\$1,840.73	\$0	\$1,840.73	\$0	\$0	--
Total Fixed Charges			\$445,080		\$445,080	\$0	0.00%
Consumption to 50,000 gals/mo.	157,541	\$5.37	\$845,995	\$6.41	\$1,009,838	\$163,843	19.37%
Consumption over 50,000 gals/mo.	105,366	\$5.71	\$601,640	\$6.81	\$717,542	\$115,903	19.26%
Total Consumption			\$1,447,635		\$1,727,380	\$279,745	19.32%
Total Irrigation Customers			\$1,892,715		\$2,172,460	\$279,745	
Target Revenues					\$2,171,853	\$279,138	
Difference					\$607	\$607	

KIAWAH ISLAND UTILITY, INC.
Final - Water Rate Design

Description (a)	Billing Determinants (b)	Current Rate (c)	Current Revenues (d)	Settlement Proposed Rates (e)	Settlement Proposed Revenues (f)	Increase (g)	Percent Increase (h)
Golf - Potable							
Potable Water	48	\$871.45	\$41,830	\$871.45	\$41,830	\$0	0.00%
Consumption - Potable	25,489	\$5.71	\$145,542	\$6.64	\$169,247	\$23,705	16.29%
Total Golf - Potable			\$187,372		\$211,077	\$23,705	12.65%
<u>Target Revenues</u>					<u>\$211,058</u>	<u>\$23,686</u>	
<u>Difference</u>					<u>\$19</u>	<u>\$19</u>	
Golf - Well Water							
Deep Well Water	36	\$1,138.80	\$40,997	\$1,138.80	\$40,997	\$0	0.00%
Consumption - Well	79,415	\$0.30	\$23,825	\$0.44	\$34,943	\$11,118	46.67%
Total Golf - Well Water			\$64,821		\$75,939	\$11,118	17.15%
<u>Target Revenues</u>					<u>\$75,747</u>	<u>\$10,926</u>	
<u>Difference</u>					<u>\$192</u>	<u>\$192</u>	
Private Fire							
2" Line	252	8.65	\$2,180	\$9.22	\$2,323	\$144	6.59%
3" Line	84	15.83	\$1,330	\$16.88	\$1,418	\$88	6.63%
4" Line	180	27.43	\$4,937	\$29.25	\$5,265	\$328	6.64%
6" Line	24	54.87	\$1,317	\$58.51	\$1,404	\$87	6.63%
8" Line	12	96.11	\$1,153	\$102.49	\$1,230	\$77	6.64%
Total Fire Line			\$10,917		\$11,640	\$723	6.63%
<u>Target Revenues</u>					<u>\$11,642</u>	<u>\$725</u>	
<u>Difference</u>					<u>(\$2)</u>	<u>(\$2)</u>	
Total Water Sales							
TOTAL Water Sales			\$7,297,584		\$7,912,143	\$614,559	
<u>Target Revenues</u>					<u>\$7,912,320</u>	<u>\$614,736</u>	
<u>Difference</u>					<u>(\$177)</u>	<u>(\$177)</u>	
Fire Hydrant Service			\$39,551		\$39,551	\$0	
Late Payment & Return Check Charges			\$3,131		\$3,395	\$264	
Other Revenue			\$23,447		\$23,447	\$0	
TOTAL REVENUE			\$7,363,713		\$7,978,536	\$614,823	
<u>TOTAL REVENUE TARGET</u>					<u>\$7,978,713</u>	<u>\$615,000</u>	
<u>DIFFERENCE</u>					<u>(\$177)</u>	<u>(\$177)</u>	

PROPOSED ORDER EXHIBIT 3

**KIAWAH ISLAND UTILITY, INC.
Final - Sewer Rate Design**

Description	Billing Determinants	Current Rate	Current Revenues	Settlement Proposed Rates	Settlement Proposed Revenues	Increase	Percent Increase
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Residential							
5/8" Meter	34,620	\$28.00	\$969,360	\$28.00	\$969,360	\$0	0.00%
3/4 Meter	5,196	\$42.00	\$218,232	\$42.00	\$218,232	\$0	0.00%
1" Meter	3,876	\$69.99	\$271,281	\$69.99	\$271,281	\$0	0.00%
1 1/2" Meter	120	\$139.98	\$16,798	\$139.98	\$16,798	\$0	0.00%
2" Meter	84	\$223.98	\$18,814	\$223.98	\$18,814	\$0	0.00%
3" Meter	-	\$489.95	\$0	\$489.95	\$0	\$0	0.00%
4" Meter	-	\$1,514.79	\$0	\$1,514.79	\$0	\$0	0.00%
Consumption to 11,000 gals/mo.	351,605	\$0.74	\$260,188	\$0.74	\$260,188	\$0	0.00%
Consumption 11,000-50,000 gals/mo.	-		\$0	\$0.00	\$0	\$0	0.00%
Consumption over 50,000 gals/mo	-		\$0	\$0.00	\$0	\$0	0.00%
Total Residential Customers			\$1,754,673		\$1,754,673	\$0	0.00%
Target Revenues					\$1,754,673		
Difference					\$0		
Commercial							
5/8" Meter	276	\$28.00	\$7,728	\$28.00	\$7,728	\$0	0.00%
3/4 Meter	120	\$42.00	\$5,040	\$42.00	\$5,040	\$0	0.00%
1" Meter	84	\$69.99	\$5,879	\$69.99	\$5,879	\$0	0.00%
1 1/2" Meter	156	\$139.98	\$21,837	\$139.98	\$21,837	\$0	0.00%
2" Meter	180	\$223.98	\$40,316	\$223.98	\$40,316	\$0	0.00%
3" Meter	48	\$489.95	\$23,518	\$489.95	\$23,518	\$0	0.00%
4" Meter	24	\$1,514.79	\$36,355	\$1,514.79	\$36,355	\$0	0.00%
Consumption	28,043	\$2.86	\$80,203	\$2.86	\$80,203	\$0	0.00%
Total Commercial Customers			\$220,876		\$220,876	\$0	0.00%
Target Revenues					\$220,876		
Difference					\$0		
Hotels							
per Room	3,060	\$11.19	\$34,241	\$11.19	\$34,241	\$0	0.00%
Consumption	8,817	\$2.86	\$25,217	\$2.86	\$25,217	\$0	0.00%
Total Hotels			\$59,458		\$59,458	\$0	0.00%
Target Revenues					\$59,458		
Difference					\$0		
Effluent							
Effluent Water	36	\$4,648.72	\$167,354	\$4,648.72	\$167,354	\$0	0.00%
Consumption	211,679	\$0.20	\$42,336	\$0.20	\$42,336	\$0	0.00%
Total Golf - Potable			\$209,690		\$209,690	\$0	0.00%
Target Revenues					\$209,690		
Difference					\$0		
Total Rate Revenues							
TOTAL RATE REVENUES			\$2,244,697		\$2,244,697	\$0	0.00%
TOTAL REVENUE TARGET					\$2,244,697		
DIFFERENCE					\$0		
Other Revenue			\$8,906		\$8,906		
TOTAL REVENUE			\$2,253,603		\$2,253,603	\$0	
TOTAL TARGET REVENUE					\$2,253,603		
DIFFERENCE					\$0		